



**Management's Discussion and Analysis  
For the Three Month Period Ended March 31, 2011**

# Management's Discussion and Analysis

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## Special Note Regarding Forward Looking Statements

Certain statements included or incorporated by reference in this MD&A, including information as to the future financial or operating performance of the Company, its subsidiaries and its projects, constitute forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "schedule" and similar expressions identify forward-looking statements. Forward-looking statements include, among other things, statements regarding targets, estimates and assumptions in respect of gold production and prices, operating costs, results and capital expenditures, mineral reserves and mineral resources and anticipated grades and recovery rates. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company. Such factors include, among others, risks relating to additional funding requirements, political and foreign risk, uninsurable risks, competition, environmental regulation and liability, government regulation, currency fluctuations, recent losses and write-downs and dependence on key employees. See "Risk Factors" section of this MD&A. Due to risks and uncertainties, including the risks and uncertainties identified above, actual events may differ materially from current expectations. Investors are cautioned that forward-looking statements are not guarantees of future performance and, accordingly, investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein. Forward-looking statements are made as of the date of this MD&A and the Company disclaims any intent or obligation to update publicly such forward-looking statements, whether as a result of new information, future events or results or otherwise.

## Cautionary Note to U.S. Investors

The terms "proven mineral reserve" and "probable mineral reserve" used in this report are Canadian mining terms as defined in accordance with National Instrument 43-101 - Standards of Disclosure for Mineral Projects under the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Standards on Mineral Resources and Mineral Reserves, adopted by the CIM Council on August 20, 2000 as may be amended from time to time by the CIM. These definitions differ from the definitions in the SEC's Industry Guide 7. The terms, "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" used in this report are Canadian mining terms as defined in accordance with National Instrument 43-101. While the terms "measured mineral resource", "indicated mineral resource", and "inferred mineral resource" are recognized and required by Canadian regulations, they are not defined terms under Industry Guide 7 and normally are not permitted to be used in reports and registration statements filed with the SEC. As such, information contained in this report concerning descriptions of resources under Canadian standards may not be comparable to similar information made public by U.S. companies in SEC filings. With respect to "indicated mineral resource" and "inferred mineral resource" there is a great amount of uncertainty as to their existence and a great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "indicated mineral resource" or "inferred mineral resource" will ever be upgraded to a higher category. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.

## General

This Management's Discussion and Analysis ("MD&A") of Crystallex International Corporation ("Crystallex" or the "Company") provides an analysis of the Company's unaudited interim consolidated financial statements and the related notes as at and for the three months ended March 31, 2011. This MD&A should be read in conjunction with those unaudited interim consolidated financial statements as well as the annual audited consolidated financial statements of the Company and the related annual MD&A for the year ended December 31, 2010.

The Company prepares its consolidated financial statements in United States ("U.S.") dollars. Effective the first quarter of 2011, the financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). The comparative financial information of 2010 in this Management Discussion and Analysis has also been restated to conform to IFRS. This Management Discussion and Analysis should be read with Note 4 "Transition to IFRS" to the unaudited interim consolidated financial statements.

This MD&A was prepared on June 14, 2011. The Company's public filings, including its most recent Financial Statements and Annual Information Form, can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.crystallex.com](http://www.crystallex.com).

The Company's common shares are traded on the Toronto Stock Exchange (symbol: KRY).

## Overview

Crystallex is a Canadian-based mining company with a focus on acquiring, exploring, developing and operating mining projects. Crystallex has successfully operated an open pit gold mine in Uruguay and developed and operated three gold mines and a milling operation in Venezuela. Since the signing of a Mine Operating Contract (the "MOC") in September 2002 with the Corporacion Venezolana de Guayana (the "CVG"), which granted Crystallex exclusive rights to develop and operate the Las Cristinas gold properties ("Las Cristinas Project" or "Las Cristinas") located in Bolivar State, Venezuela, the Company has worked vigorously to bring the Las Cristinas Project to development. On February 3, 2011, the MOC was unilaterally terminated by the CVG, despite the CVG confirming the validity of the MOC in August 2010. The Company believes there is no justification for this unilateral rescission under Venezuelan or International law. Following the termination of the MOC, on February 16, 2011, the Company filed a Request for Arbitration ("Arbitration Request") before the Additional Facility of the World Bank's International Centre for Settlement of Investment Disputes ("ICSID") against the Bolivarian Republic of Venezuela ("Venezuela") pursuant to the Agreement between the Government of Canada and the Government of the Republic of Venezuela for the Promotion and Protection of Investments (the "Treaty"). The claim is for breach of the Treaty's protections against expropriation, unfair and inequitable treatment and discrimination. The Arbitration Request was registered by ICSID on March 9, 2011. The next step in the arbitration process, constitution of the arbitral Tribunal is currently underway. (see Legal Proceedings – Arbitration).

The Company completed all of the requirements necessary for the issuance of the Authorization to Affect Natural Resources (the "Permit") from the Ministry of Environment and Natural Resources ("MinAmb") while maintaining compliance with the terms of the MOC. Notwithstanding the Company's fulfilment of the requisite conditions, Venezuela's approval of the Environmental Impact Study and assurances that the Permit would be issued, in April 2008, MinAmb denied the Company's request for the Permit. The Company appealed the Permit denial and did not receive a response from MinAmb.

Crystallex is now seeking the restitution by Venezuela of its investments, including the MOC, and the issuance of the Permit and compensation for interim losses suffered, or, alternatively full compensation for the value of its investment in an amount in excess of US\$3.8 billion.

The Company's immediate objectives are to (1) diligently pursue the arbitration claim, while seeking settlement alternatives with Venezuela; (2) sell the remaining Las Cristinas project equipment, recorded on the balance sheet at its net realizable value of \$27.5 million; (3) negotiate to restructure the Company's senior unsecured \$100 million of Notes ("the Notes") due in December 2011; and (4) pursue alternate financing; and (5) evaluate and pursue opportunities in the mining sector.

Crystallex's senior management team and Directors will have an instrumental role in executing these objectives. Their historical knowledge of the Las Cristinas project is vitally important to successfully advancing the arbitration

claim, while their mining and finance experience are critical for identifying and evaluating new opportunities in the mining sector.

The Company is currently negotiating a restructuring of the Notes with various significant Noteholders (“the Noteholders”), while concurrently pursuing refinancing opportunities with other parties. There are no assurances that these discussions will be successful.

On May 27, 2011, the Company was served with a Notice of Application by certain holders of the Notes. The Noteholders are seeking a declaration from the Court that there has been a "Project Change of Control". If successful, the Company would be required to purchase all of the Notes of each Noteholder who has so requested at a price equal to 102% of the principal amount of the Notes, together with accrued and unpaid interest to the date of purchase. The Company has previously successfully defended multiple actions by the Noteholders and it intends to vigorously defend this application as well, (refer to Legal Proceedings – Prior Noteholder Claims).

On June 1, 2011, the Company was advised by the NYSE Amex that its Appeal of the Exchange’s delisting determination was denied. Crystallex has the right to appeal this decision to the full Committee on Securities, within 15 calendar days, which it intends to do. The NYSE Amex has suspended trading of Crystallex shares on the NYSE Amex while the Appeal is ongoing. The Company’s shares continue to trade on the TSX Exchange and now also trade on the OTCQB.

## Summary of Quarterly Results (Unaudited)

US\$,000 except per share	2011	2010		
	Q1	Q4	Q3	Q2
Net loss and comprehensive loss	(14,955)	(14,969)	(6,326)	(13,142)
Write-down of Las Cristinas	(696)	(1,716)	(3,150)	(4,064)
Provision for value-added taxes recoverable	(27)	(89)	(146)	(1,936)
Loss on write-down of equipment	(5,700)	(6,389)	-	-
Gain on revaluation of warrants	379	1,167	3,050	41
Loss per share – Basic and diluted	(0.04)	(0.04)	(0.02)	(0.04)

US\$,000 except per share	2010	2009		
	Q1	Q4 <sup>(a)</sup>	Q3 <sup>(a)</sup>	Q2 <sup>(a)</sup>
Loss from continuing operations	-	(281,417)	(19,889)	(6,319)
Loss from discontinued operations	-	(406)	(229)	(431)
Loss after discontinued operations	-	(281,823)	(20,118)	(6,750)
Net loss and comprehensive loss	(8,199)	-	-	-
Write-down of Las Cristinas included in loss from continuing operations	(3,610)	(297,069)	-	-
Gain on revaluation of warrants	1,214	-	-	-
Future income tax recovery	-	17,459	-	-
Unrealized gain (loss) on translation of future income taxes included in (loss) income from continuing operations	-	1,659	(3,298)	679
Gain (loss) on write-down of equipment sold and held for sale included in loss from continuing operations	-	1,968	(10,263)	-
Loss per share from continuing operations – Basic and diluted	-	(0.95)	(0.07)	(0.02)
Loss per share – Basic and diluted	(0.03)	(0.96)	(0.07)	(0.02)

(a) The financial results for the periods ending prior to January 1, 2010 have not been restated in accordance with IFRS.

## Results of Continuing Operations

The Company recorded losses of \$15.0 million (\$0.04 per share) and \$8.2 million (\$0.03 per share) for the three month period ended March 31, 2011 and 2010 respectively. The increased loss of \$6.8 million is primarily attributable to a larger write-down of property, plant and equipment of \$6.4 million in 2011 as compared to \$3.6 million in 2010, expenditures on Las Cristinas (following the February 3, 2011 termination of the MOC Las Cristinas expenses are no longer capitalized) of \$1.1 million as compared to \$nil in 2010, withdrawal costs for Las Cristinas of \$0.6 million in 2011 as compared to \$nil in 2010, an increase in general and administrative expenses to \$3.8 million in 2011 as compared to \$2.6 million in 2010 and by a decrease in the gain on revaluation of warrants from \$1.2 million in 2010 to \$0.4 million in 2011.

## General and Administrative Expenses

General and administrative expenses increased by \$1.3 million to \$3.8 million for the three month period ended March 31, 2011 (2010 - \$2.6 million). Legal expenditures accounted for \$0.6 million of the increase, largely related to advancing the Company's arbitration claim. The balance of the increase was attributable to employee severance claims in Venezuela, non-cash stock-based compensation and other expenses.

The Company expects to incur significant costs in the future related to its arbitration claim against Venezuela.

## Litigation Expenses

The Company did not incur significant litigation costs in the first quarter of 2011 as the Court of Appeal dismissed the Noteholder's claim in the second quarter of 2010. There was no activity on the class action suit in the first quarter of 2011.

## Write-down of the Carrying Value of Las Cristinas, Provision for VAT and Future Income Tax Recovery

At December 31, 2009, it was determined that the uncertainty regarding the receipt of the permit for Las Cristinas had a significant impact on the estimated future net cash flows associated with the Las Cristinas Project. Accordingly, the Company recorded a non-cash write-down of \$297.1 million relating to all Las Cristinas mineral property costs, except the carrying value of the remaining mining equipment. The accumulated non-cash write-down on Las Cristinas resulted in the reversal of future income tax liabilities of \$17.5 million as at December 31, 2009 relating to temporary differences between book and tax values previously recorded.

The Company continued to perform impairment assessments at the end of each quarter in 2010 and for similar reasons to those indicated above, the Company recorded non-cash write-downs totalling \$12.5 million in 2010. In the first quarter of 2011, the Company recorded an additional write-down of \$696 thousand bringing the cumulative write-down to \$310.3 million. As a result of the cancellation of the MOC no further write-downs against Las Cristinas were recorded, as all costs associated with Las Cristinas in February and March of 2011 were expensed directly in the income statement. In addition, the Company recorded a provision of \$2.2 million against Venezuelan value-added taxes recoverable ("VAT") from cumulative expenditures incurred on Las Cristinas. This provision was recorded as this VAT was only recoverable from future operations at Las Cristinas which could not be transferred or assigned. These write-downs of the Las Cristinas project are based on accounting principles only, and are thus without prejudice to the legal qualifications that the Venezuelan measures may be given under Venezuelan or International law (including the Treaty).

The Company's main focus since receiving the MOC from the CVG in September, 2002, was the development of Las Cristinas. The Company incurred costs such as, interest on the Notes and general and administrative costs which have not been capitalized on the Las Cristinas Project for accounting purposes. Accordingly, the write-downs relate only to the direct costs capitalized for accounting purposes and do not include the indirect costs which have been expensed by the Company in its pursuit of the development of Las Cristinas.

## Losses on Write-down and Sale of Mining Equipment

During 2009, the Company sold generic mining equipment for net proceeds of \$12.4 million, which originally cost \$19.4 million.

In April 2010, the Company sold additional equipment for \$2.8 million (after receiving an advance of \$0.9 million in December 2009). This equipment had a net book value of \$4.4 million; however, at December 31, 2009, the Company recorded a write-down of \$1.2 million based on estimated net realizable value of \$3.2 million.

At December 31, 2010, the Company wrote down the value of its remaining equipment by \$6.4 million to a net realizable value of \$33.2 million and at March 31, 2011, recorded a further write-down of \$5.7 million, reducing the net realizable value to \$27.5 million. Fair value less costs to sell was determined based on a range of estimated proceeds expected to arise from the sale of the equipment.

Upon the unilateral cancellation of the MOC by the CVG in February 2011, the Company commenced a process to sell its remaining mining equipment.

### **Interest on Notes Payable**

Interest expense on the Notes was \$3.5 million in 2011 and \$3.4 million in 2010. An interest payment of \$4.7 million was made in January 2011 on the Notes which bear interest at 9.375% per annum. Interest is payable semi-annually in January and July. Interest expense on the Notes also includes amortization of debt transaction costs related to this debt and non-cash interest accretion of \$1.2 million in 2011 and \$1.1 million in 2010 as the Notes were originally derived from a financial instrument that contained both liability and equity components.

### **Interest on Demand Loan and Promissory Note**

Interest expense on the demand loan was \$37 thousand in the first quarter of 2011 as compared to \$0.1 million in the corresponding quarter of 2010.

### **Foreign Currency Exchange Gain**

The Company recorded foreign currency exchange gains of \$0.2 million in 2011 as compared to a loss of \$43 thousand in 2010, mainly as a result of fluctuations in the value of CAD\$ held.

### **Las Cristinas Expense**

With the unilateral termination of the MOC on February 3, 2011, the Company discontinued the capitalization of costs for the Las Cristinas project at the end of January 2011. For the months of February and March 2011, costs for Las Cristinas were directly expensed on the income statement. Expenditures on Las Cristinas for the three month period ended March 31, 2011 were \$1.1 million (2010 - \$nil as costs were capitalized for this period in 2010).

### **Las Cristinas Withdrawal Expense**

The Company withdrew from the Las Cristinas site effective March 31, 2011 following the termination of the MOC and transferred the property to the CVG.

Costs associated with the hand-over and transfer to the CVG totalled \$0.6 million and were expensed directly in the statement of loss and comprehensive loss.

### **Liquidity and Capital Resources**

The Company expects to continue to incur operating losses throughout the period of pursuing its arbitration claim.

The Company estimates that its existing cash and cash equivalents, together with expected proceeds from equipment sales will enable it to meet its obligations and budgeted expenditures during 2011; however, without a restructuring or refinancing, the Company will not be able to repay the \$100 million of Notes due December 2011.

The Company is currently in negotiations with significant holders of the Notes regarding a restructuring of the Notes. Additionally, the Company is pursuing alternate financing to refinance the Notes. There can be no assurances that the refinancing efforts will be successful or that financing will be available to the Company on acceptable terms, or at all.

## Cash and Cash Equivalents

On March 31, 2011, the Company had cash and cash equivalents of \$8.0 million compared to \$16.1 million on December 31, 2010. The change in the cash and cash equivalents balance during 2011 is reconciled as follows (\$ millions):

Cash, December 31, 2010	\$ <u>16.1</u>
Cash used in operating activities	(6.5)
Capital expenditures – Las Cristinas	(2.4)
Proceeds from bank loan in Venezuela	0.7
Effects of foreign currency exchange rate fluctuations on cash	<u>0.1</u>
	<u>(8.1)</u>
Cash and cash equivalents, March 31, 2011	\$ <u>8.0</u>

## Cash Used in Operating Activities

Cash used in operating activities from continuing operations in the first quarter of 2011 was \$6.5 million compared to \$6.6 million used in the comparable quarter of 2010.

Cash used in the first quarter of 2011 and 2010 was largely attributable to corporate general and administrative expenses (net of non-cash stock-based compensation in both years); and cash interest payments of \$4.7 million (2010 - \$4.7 million).

## Investing Activities

Cash used for capital expenditures for the Las Cristinas Project was \$2.4 million in 2011 compared to \$3.2 in the corresponding quarter of 2010.

The majority of the expenditures in both periods represent ongoing costs for administering, securing and maintaining control over the Las Cristinas camp and storage costs for long lead time equipment stored outside of Venezuela.

## Financing Activities

During the period ended March 31, 2011, the Company increased its Venezuelan bank loan by \$0.7 million (3.0 million BsF) to \$1.6 million (7.0 million BsF). There were no outstanding bank loans during the three month period ended March 31, 2010.

## Contractual Obligations and Commitments

The Company's significant contractual obligations and commitments, as at March 31, 2011, are tabled below: (in \$millions)

Millions	Less than 1 month	1 - 3 months	3 months to 1 Year	1 year to 5 Years	Total
Debt	\$ -	\$ 1.6	\$ 102.5	\$ -	\$ 104.1
Interest on notes payable	-	-	8.8	-	8.8
Asset retirement obligations	-	-	1.1	2.8	3.9
<b>Total contractual obligations</b>	<b>\$ -</b>	<b>\$ 1.6</b>	<b>\$ 112.4</b>	<b>\$ 2.8</b>	<b>\$ 116.8</b>

## Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements with special purpose entities.

## Related Party and Other Transactions

For the three month period ended March 31, 2011, the Company paid head office rent of \$32 thousand (2010 - \$25 thousand) to a subsidiary of Sunwah International Limited (previously Kingsway International Holdings Limited), a company that retains the Chairman and Chief Executive Officer of the Company as a director. In addition, in August 2009, another subsidiary of Sunwah International Limited entered into an agreement with the Company to provide advisory services. The advisory fee included a work fee, and a success fee which only became payable upon the fulfilment of certain conditions. For the three month period ended March 31, 2011, the Company paid advisory fees of \$nil (2010 - \$125 thousand) under the terms of this advisory agreement. The Sunwah advisory agreement terminated on December 31, 2010; however, for a period of one year after the termination date, the success fee is payable if certain conditions are met.

As at March 31, 2011, \$11 thousand (2010 - \$12) was receivable from the Chairman and CEO of the Company. The receivable was repaid subsequent to the period end.

These transactions were in the normal course of operations and were measured at the exchange values, which represented the amount of consideration established and agreed to by the related parties.

## Venezuelan Operations

In the third quarter of 2007, Crystallex changed the rate it used to translate its Venezuelan subsidiaries' transactions and balances from the official exchange rate of 2.15 Venezuelan bolivar fuerte ("BsF") to 1 US dollar, to the parallel exchange rate. This was done due to the increasing spread between the official exchange rate and the parallel exchange rate.

The Venezuelan subsidiaries have a US dollar functional currency. As a result of the US dollar functional currency, monetary assets and liabilities denominated in BsF give rise to income or expense for changes in value associated with foreign currency exchange rate fluctuations against the US dollar.

On January 11, 2010, the Venezuelan government devalued the BsF and changed to a two-tier exchange structure. The official exchange rate moved from 2.15 BsF per US dollar to 2.60 for essential goods and 4.30 for non-essential goods and services. The 2.60 exchange rate for essential goods has since been eliminated.

On May 17, 2010, the Venezuelan government enacted reforms to its foreign currency exchange control regulations to close down the parallel exchange market. Therefore, continued use of the parallel rate for BsF denominated transactions is no longer acceptable.

On June 9, 2010, the Venezuelan government enacted additional reforms to its exchange control regulations and introduced a newly regulated foreign currency exchange system; Sistema de Transacciones con Titulos en Moneda Extranjera ("SITME"), which is controlled by the Central Bank of Venezuela ("BCV"). The SITME imposes volume restrictions on the conversion of BsF to US dollar, currently limiting such activity to a maximum equivalent of US\$350 thousand per month.

As a result of the enactment of the reforms to the exchange control regulations, the Venezuelan subsidiaries did not meet the requirements to use the SITME to convert US dollars to BsF as at June 30, 2010. Accordingly, the Company changed the rate used to re-measure BsF-denominated transactions from the parallel exchange rate to the official rate specified by the BCV, which was fixed at 4.30 BsF per US dollar on June 30, 2010.

Venezuelan subsidiaries had approximately \$2.6 million of net monetary assets denominated in BsF as at March 31, 2011. For every \$1 million of net monetary assets denominated in BsF, a 15% increase/(decrease) in the foreign currency exchange rate would (decrease)/increase the Company's loss by approximately \$0.2 million.

The El Callao mining activities ceased as at September 30, 2008. The Company continues to incur expenditures for maintaining a very small office at El Callao to oversee the closure plans for past mining activities and for the

process of transferring a number of mining concessions back to Venezuela. The Company has transferred the Tomi and La Victoria mining concessions to Minerven, a Venezuelan state controlled mining company, and is currently reviewing its reclamation obligations with MinAmb and MIBAM.

Effective March 31, 2011, the Company withdrew from the Las Cristinas site and transferred the property to the CVG. The costs associated with the withdrawal, including severance and termination costs have been accrued at March 31, 2011.

## **Legal Proceedings**

### **Arbitration**

On February 16, 2011, the Company filed the Arbitration Request before ICSID against Venezuela pursuant to the Treaty. The arbitration has been commenced as a result of the failure of the Government of Venezuela to grant the Permit for the Las Cristinas project, despite Crystallex's fulfilment of all conditions established by Venezuela, and the arbitrary unilateral termination of the MOC. The claim is for breach of the Treaty's protections against expropriation, unfair and inequitable treatment and discrimination. Crystallex is seeking the restitution by Venezuela of Crystallex's investments, including the MOC, and the issuance of the Permit and compensation for interim losses suffered, or, alternatively, full compensation for the value of its investment in an amount in excess of US\$3.8 billion.

As a precondition for initiating an arbitration under the Treaty, the Company notified Venezuela that it has waived its right to commence or continue any other proceedings in relation to the measures that are alleged to be in breach of the Treaty before the courts or tribunals of Venezuela or in a dispute settlement procedure of any kind, including the Appeal.

On March 9, 2011 the Arbitration Request was registered by the Secretary-General of ICSID. The next step in the arbitration process is the constitution of a Tribunal which will establish among other things the procedural calendar for the Arbitration. The Arbitration procedure allows for the Company's filing of its written submission and accompanying evidence; a response from Venezuela and accompanying evidence; oral hearings and a written reasoned decision by the Tribunal which could in certain circumstances be contested by either party. This process can last a number of years in the absence of a negotiated settlement with Venezuela.

### **Noteholders' claim**

In December 2008, the Company was served with a notice of application (the "Application") by the trustee for the holders of the \$100 million unsecured Notes. The trustee, on behalf of certain Noteholders sought, among other things, a declaration from the court that there had been a project change of control (a "Project Change of Control") event, as defined in the First Supplemental Indenture made as of December 23, 2004, thereby requiring Crystallex to accelerate payment and purchase all of the Notes of each Noteholder who has so requested, together with accrued and unpaid interest to the date of purchase.

A "Project Change of Control" is defined as the occurrence of any transaction as a result of which Crystallex ceases to beneficially own, directly or indirectly, at least a majority interest in the Las Cristinas project asset.

On December 16, 2009, the Ontario Superior Court of Justice dismissed all of the Noteholders' claims against Crystallex and ordered the Noteholders to pay Crystallex its costs incurred with respect to the Application. In detailed reasons, the court held that Crystallex and its Board acted reasonably and in accordance with its obligations to all stakeholders including the Noteholders. The Noteholders appealed this decision, which was heard in late April 2010.

On May 9, 2010, the Court of Appeal for Ontario dismissed the Noteholders' appeal and awarded costs to Crystallex.

On May 11, 2010, the Company was served with a statement of claim by the trustee for the Noteholders seeking indemnification of costs.

On June 16, 2010, the Company and the trustee agreed to a cost settlement to Crystallex of \$0.8 million on account of Crystallex's costs in defending the litigation. That payment was effected by netting against the July 15,

2010 semi-annual interest payment on the Notes. The Noteholders also signed a release against the Company and its directors at the same time.

On May 26, 2011, the Company was served with a Notice of Application by certain holders of the Notes. The Noteholders are seeking a declaration from the Court that there has been a "Project Change of Control" event as defined in the First Supplemental Indenture made as of December 23, 2004 thereby requiring Crystallex to purchase all of the notes of each note holder who has so requested at a price equal to 102% of the principal amount of the notes, together with accrued and unpaid interest to the date of purchase.

### **Proposed class action dismissed**

The Company and certain officers and directors were named as defendants (the "Defendants") in a putative securities fraud class action that commenced on December 8, 2008, in the United States District Court for the Southern District of New York. The plaintiffs in the lawsuit were described as investors who acquired the Company's common shares during the period from March 27, 2006 to April 30, 2008, inclusive (the "Proposed Class Period"). The complaint alleged that the Defendants made several statements during the Proposed Class Period about the Company's Las Cristinas Project, and that the issuance of the required Venezuelan government Permit in connection with that project was imminent and guaranteed to be issued to the Company. The complaint asserted that the Defendants did not have, during the Proposed Class Period, a reasonable expectation that the Company would receive the required Permit, and that on April 30, 2008, the Permit was, in fact, denied. The proposed class action sought compensatory damages plus costs and fees, alleging violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder by each of the Defendants, and a violation of Section 20A of the Exchange Act by one of the individual Defendants.

On March 28, 2011, the court dismissed this lawsuit in its entirety and without prejudice. The court allowed the plaintiffs to file a second amended complaint if they had reason to do so in good faith within 21 days of the court order. After the plaintiffs did not file a second amended complaint, the district court entered a final judgement closing the case on April 26, 2011.

On April 21, 2011 the plaintiffs appealed the court's decision to dismiss the complaint. This appeal was dismissed by the United States Court of Appeals for the Second Circuit on May 24, 2011.

### **Claims by former employees**

The Company's subsidiaries in Venezuela have been served with statements of claim from several former employees for additional severance and health related issues for an aggregate claim of approximately \$1.0 million. The Company has recorded a provision based on its best estimates of amounts that may need to be paid based on the experience with cases settled to date.

### **Critical Accounting Estimates and Uncertainties**

In preparing financial statements in accordance with International Financial Reporting Standards ("IFRS"), management is required to make estimates and assumptions that affect the reporting amounts of assets, liabilities, revenues and expenses for the period end. Critical accounting estimates represent estimates that are uncertain and for which changes in those estimates could materially impact the Company's interim consolidated financial statements. Management reviews its estimates and assumptions on an ongoing basis using the most current information available.

As the Company has prepared its financial statements for the first quarter of 2011 using IFRS, certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that are not included in the Company's most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") have been included in the interim consolidated financial statements of the first quarter of 2011 for the comparative periods.

The consolidated interim financial statements for the first quarter of 2011 should be read in conjunction with the Company's 2010 annual financial statements prepared in accordance with Canadian GAAP and in consideration of the IFRS transition disclosures included in Note 4 to the interim consolidated financial statements for the first

quarter of 2011 and the additional disclosures included therein, including the Significant Accounting Policies described in Note 3.

The critical accounting estimates and uncertainties are as follows:

#### **Going concern basis of accounting**

As at March 31, 2011, the Company had negative working capital of \$73.7 million, including cash and cash equivalents of \$8.0 million. Management estimates that the existing cash and cash equivalents, without receipt of additional sources of financing, will not be sufficient to meet the Company's obligations and budgeted expenditures during 2011 including the July 15, 2011 semi-annual interest and the principal amount of the \$100 million notes payable (the "Notes") due on December 23, 2011. The unilateral cancellation of the MOC by CVG and the subsequent arbitration claim may impact on the Company's ability to raise financing. These material uncertainties raise substantial doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, as to the appropriateness of the use of accounting principles applicable to a going concern.

The Company has commenced a process to sell its remaining equipment currently held in storage. If this equipment is sold for proceeds approximating carrying value, management projects that such funds would be sufficient to fund ongoing operations, including the July interest payment, up to December 2011 when the Notes are due. There are, however, no assurances that the sale process will be successful and if it is successful there are no assurances as to the amount or timing of any potential proceeds.

The Company is in discussions with the Noteholders to restructure the Notes. There are no assurances that such discussions will be successful, and if the Company is not successful in this initiative, then the Company will need to raise substantial additional funds to repay the Notes. Despite the financings that have been completed by the Company, it has limited access to financial resources as a direct result of the unilateral cancellation of the MOC and there is no assurance that sufficient additional financing will be available to the Company on acceptable terms, or at all, as a consequence of the Government of Venezuela's conduct. Failure to restructure the Notes or obtain such additional financing could result in the Company defaulting on its debt repayments.

The Company's interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used, that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

#### **Assessment of impairment of Las Cristinas mineral property and value-added taxes**

The Company periodically evaluates the recoverability of the net carrying value of its long-lived assets or when events or changes in circumstances indicate that their carrying values may not be recoverable.

The Company previously determined that, among other things, the uncertainty regarding the Permit had a significant impact on the estimated future net cash flows associated with the Las Cristinas Project and on recoverability of the carrying value of the asset.

The Company recorded an accumulated non-cash write-down totalling \$310.3 million as a result of impairment assessments conducted on Las Cristinas from December 31, 2009 to January 31, 2011. Following the unilateral cancellation of the MOC, the Company ceased capitalizing expenditures related to Las Cristinas. In addition, the Company recorded a provision of \$2.2 million against Venezuelan value-added taxes recoverable from cumulative expenditures incurred on Las Cristinas.

These write-downs of the Las Cristinas Project are based on accounting principles only, and are thus without prejudice to the legal qualification that the Venezuelan measures may be given under Venezuelan or international law (including the Treaty).

### **Write-down of equipment to estimated net realizable value**

The Company has commenced the process of selling its remaining equipment and as at March 31, 2011 recorded this equipment at estimated fair value, less costs to sell, of \$27.5 million. There can be no assurance that the Company will obtain this estimated net realizable value.

### **Asset retirement obligations**

Mining, development and exploration activities are subject to various laws and regulations governing the protection of the environment. The Company has recorded asset retirement obligations related to its former El Callao operations, and for the quarter ended March 31, 2011 a provision was set up for Las Cristinas.

Significant judgments and estimates have been made in determining the nature and costs associated with these obligations. Changes in the underlying assumptions used to estimate these obligations as well as changes to environmental laws and regulations could cause material changes in the expected cost and the fair value of these obligations.

### **Income taxes**

In determining both the current and deferred components of income taxes, the Company interprets tax legislation in a variety of jurisdictions as well as makes assumptions as to the expected time of the reversal of future tax assets and liabilities. If the interpretations or assumptions differ from the tax authorities, or if the timing of the reversal is not properly anticipated, the provision for or relief of taxes could increase or decrease in future periods.

### **Financial instruments and fair values**

At March 31, 2011, the Company's financial instruments consisted of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank loan, demand loan payable, notes payable and warrants denominated in CAD\$. These warrants denominated in CAD\$ are measured at fair value with any changes recognized through the statement of loss and comprehensive loss and are classified as Level 2. Accounts receivable, accounts payable and accrued liabilities, bank loan and demand loan payable are measured at amortized cost and their fair values approximate carrying values due to their short-term nature. The Notes are classified as other financial liabilities and are measured at amortized cost.

## **International Financial Reporting Standards**

### **Transition to IFRS**

On transition to IFRS from Canadian GAAP, the adjustments at transition were:

- Cumulative Translation Account - the balance was transferred to deficit and the account reset to nil. As a result the Accumulated Other Comprehensive Loss balance was reduced to nil.
- Warrants - certain warrants are required to be accounted for as Derivative Liabilities and valued at each reporting period on a mark to market basis.
- Discontinued Operations – the criteria used to determine the classification of a discontinued operation differs under IFRS. Accounts previously reported as discontinued operations have been reclassified with like items.
- Asset Retirement Obligations – the methodology used to determine the obligation differs from that previously required under Canadian GAAP. The result is a reduction in the opening deficit and an increase in the liability at transition.

## Outstanding Share Data

A summary of common shares, common share options and common share purchase warrants at June 14, 2011, are tabled below:

Common Shares Issued	364,817,719
Common Share Options	18,371,633
Warrants	<u>66,695,000</u>
Fully Diluted Common Shares	<u><b>449,884,352</b></u>

## Disclosure Controls and Internal Control over Financial Reporting

### Disclosure controls and procedures

The Company maintains disclosure controls and procedures which are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified by regulations. The Company performed an evaluation, under the supervision and participation of management, including the Chief Executive Officer and President, of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and President concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2011 due to the reasons described in "Internal control over financial reporting." The steps taken by management of the Company to address each of these areas of weakness are also described under the heading "Management's plans to remediate material weaknesses".

### Internal control over financial reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

As of March 31, 2011, Management evaluated the Company's internal control over financial reporting ("ICFR"), as defined under National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings of the Canadian Securities Administrators.

Management has evaluated the effectiveness of the Company's internal control over financial reporting as at March 31, 2011 based on the criteria set forth in "Internal Control–Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected on a timely basis.

During the audit of the Company's financial statements for the year ended December 31, 2010, which was concluded on March 31, 2011, the Company had identified the following material weaknesses:

- (a) Information and communication: The Company does not have a defined process to ensure all relevant events and obligations arising in Venezuela, including the details of contracts and other arrangements, are provided in a complete, accurate and timely manner to those responsible for the financial reporting function.
- (b) Delegation of authority: The Company does not have a comprehensive defined authority structure or framework to specify the thresholds for those acting on behalf of the Company.

Either of these material weaknesses could result in a material misstatement to the Company's annual consolidated financial statements that would not be prevented or detected. Material weakness (b) noted above could also result in the unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

As a result of the material weaknesses identified as at December 31, 2010 and not yet fully remediated, Management has concluded that, as at March 31, 2011, the Company's internal control over financial reporting was not effective.

#### **Management's plans to remediate material weaknesses**

To remediate the material weaknesses in the Company's internal control over financial reporting, Management is designing additional controls to specifically augment those controls relating to information and communication. Management is redesigning the existing authority structure or framework, which specifies the thresholds for those acting on behalf of the Company in approving transactions relating to engineering, procurement and construction management transactions to include all transactions.

Management has initiated a number of process changes to remediate the material weaknesses, however, the redesign of controls is not yet complete. Verification of the effectiveness of the changes to internal controls will take place throughout the year.

#### **Risk Factors**

The business and operations of the Company and its affiliates are subject to risks. In addition to considering the other information in the Company's 2010 Annual Information Form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com), an investor should carefully consider the following factors. Any of the following risks could have a material adverse effect on the Company, its business and future prospects.

#### **International arbitration against Venezuela**

On February 16, 2011, the Company filed the Arbitration Request under the Additional Facility Rules of ICSID against Venezuela. The Arbitration Request was registered by the Secretary General of ICSID on March 9, 2011. The arbitration, pursuant to the Treaty, was commenced by the Company following the Venezuelan Government's failure to grant the Permit and the subsequent unlawful termination on February 3, 2011 of the Las Cristinas MOC.

The Company's claim is for breach of the Treaty's protections against expropriation, unfair and inequitable treatment and discrimination. The Company is seeking restitution by Venezuela of the Company's investments, including the MOC, the issuance of the Permit to develop Las Cristinas and compensation for interim losses suffered, or alternatively full compensation for the value of its investment in excess of US\$3.8 billion. The arbitration claim is the Company's principal focus at this time as it has no other projects.

The Company cannot provide assurances as to the outcome of the arbitration process, which can last a number of years and can be costly.

#### **Political and economic uncertainty in Venezuela**

The Company's international arbitration claim is against the Government of Venezuela. Should the Company be successful in winning an award of compensation to be paid by the Government of Venezuela, the Company cannot provide any assurance that it would be able to collect an award of compensation which would materially adversely affect the Company.

Should Crystallex obtain the restitution of the MOC and the grant of the Permit to allow development activities at Las Cristinas pursuant to an arbitral award, then the Company may face a number of political, economic and regulatory risks in Venezuela.

### **Additional funding requirements**

The Company will need to raise additional funds to service its debt (including paying interest on the Notes and repaying the demand loan), to pursue international arbitration and for general working capital. The Company is currently in the process of selling equipment held in storage and, if all the equipment is sold, the Company expects to receive sufficient proceeds to fund interest payments, litigation and general working capital. There are however, no assurances that the proceeds of equipment sales will be sufficient to cover these expenses and the timing of the receipt of sales proceeds is uncertain.

The Company is in discussions with the Noteholders to refinance or restructure the Notes. If the Company is not successful in this initiative, then the Company will need to raise substantial additional funds to repay the Notes. Despite the financings that have been completed by the Company, the Company has limited access to financial resources as a direct result of the cancellation of the MOC and there is a risk that sufficient additional financing may not be available to the Company on acceptable terms, or at all, as a consequence of the Government of Venezuela's conduct. Failure to obtain such additional financing could result in the Company defaulting on its debt repayments.

### **Environmental regulation and liability**

The Company is no longer engaged in operating activities at its former properties near El Callao in Venezuela and has transferred ownership of the processing facility and El Callao mining concessions to the Government of Venezuela. The Company has environmental reclamation obligations related to its previous mining and processing operations on the El Callao concessions. The scope of the reclamation work required to be undertaken by the Company on the El Callao concessions has yet to be determined as the Government of Venezuela may continue with mining or other activities on the concessions.

The reclamation activities are subject to laws and regulations controlling the environment. Environmental legislation may change and result in greater reclamation costs than the Company currently estimates. In general, environmental legislation is evolving towards stricter standards, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. Future environmental legislation could cause additional expense the extent of which cannot be predicted.

The Company does not maintain environmental liability insurance. The Company has adopted high standards of environmental compliance; however, failure with or unanticipated changes in Venezuela's laws and regulations pertaining to the protection of the environment could adversely affect the Company.

### **Currency fluctuations**

The Company's functional and reporting currency is the U.S. dollar. A significant portion of the Company's operating and capital expenditures are in Venezuelan BsF and Canadian dollars. Fluctuations in exchange rates between the U.S. dollar and both the BsF and Canadian dollar, either favourable or unfavourable, could have a material impact on the results of operations and financial position.

### **Operating losses are expected to continue in the near future**

The Company expects that it will continue to incur losses and there can be no assurance that the Company will become profitable in the near future.

### **Potential dilution**

As at June 14, 2011, the Company had outstanding options to purchase 18,371,633 common shares of the Company and warrants to purchase 66,695,000 common shares of the Company (including 12,250,000 warrants that do not become effective until after the receipt of the Permit). The issue of common shares of the Company upon the exercise of the options and warrants will dilute the ownership interest of the Company's current shareholders. The Company may also issue additional stock options and warrants or additional common shares from time to time in the future. Furthermore, in connection with any successful future financings, any refinancing of the Notes or in connection with the restructuring of the Notes, the Company may issue additional securities. If it does so, the ownership interest of the Company's then current shareholders would be further diluted.

### **Common share price volatility**

The market price of the common shares of the Company could fluctuate significantly based on a number of factors in addition to those listed in this document, including:

- the Company's operating performance and the performance of competitors and other similar companies;
- the public's reaction to the Company's press releases, other public announcements and the Company's filings with the various securities regulatory authorities;
- changes in recommendations by research analysts who track the common shares or the shares of other companies in the resource sector;
- changes in general economic conditions;
- the arrival or departure of key personnel;
- significant global economic events;
- acquisitions, strategic alliances or joint ventures involving the Company or its competitors; and
- outcomes of litigation.

In addition, the market price of the common shares of the Company are affected by many variables not directly related to the Company's success and are, therefore, not within the Company's control, including other developments that affect the market for all resource sector shares, the breadth of the public market for the common shares and the attractiveness of alternative investments. The effect of these and other factors on the market price of common shares on the exchanges on which the Company trades has historically made the Company's share price volatile and suggests that the Company's share price will continue to be volatile in the future.

### **Dependence on key employees**

The Company's business is dependent on retaining the services of a small number of key management personnel and directors, in particular those who possess important historical knowledge of Las Cristinas relevant to the arbitration claim. The loss of key personnel and/or directors could have a material adverse effect on future operations of the Company.

### **Credit and market risks**

The Company may enter into financial agreements (financial instruments) with major international banks, other international financial institutions and other accredited third parties in order to manage underlying revenue and future cash flow exposures arising from commodity prices. Financial instruments, which subject the Company to market risk and concentrations of credit risk, consist primarily of cash and accounts receivable.

Market risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates or currency exchange rates. The Company manages the market risk associated with commodity prices by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Credit risk is the risk that a counterparty might fail to fulfil its performance obligations under the terms of a contract. The Company limits the amount of credit exposure in cash and cash equivalents by placing these in high quality securities issued by government agencies and financial institutions. The Company's cash equivalents include deposits with Schedule 1 Canadian banks, denominated in U.S. dollars. The Company also has concentrations of credit risk with respect to accounts receivable as the accounts receivable are due from the Servicio Nacional Integrado de Administracion Tributaria (SENIAT - Venezuelan Tax Department).

### **Enforcement by investors of civil liabilities**

The enforcement by investors of civil liabilities under United States federal securities laws may be adversely affected by the fact that the Company is organized under the laws of Canada, that most of its officers and directors are residents of Canada, and that a substantial portion of the Company's assets and the assets of a majority of the Company's directors and officers named in the 2010 Annual Information Form are located outside the United States. Furthermore, it may not be possible to enforce against the Company or its directors or officers, judgments obtained in U.S. courts. The Company believes that a monetary judgment of a Canadian court

predicated solely on the Canadian civil liability regime would likely be enforceable in the U.S. if the Canadian court in which the judgment was obtained had a basis for jurisdiction in the matter that was recognized by a U.S. court for such purposes, but this area of the law is not free from doubt and there is a risk that such a judgment will not be enforceable.

**No payment of cash dividends in the near future**

The Company intends to retain cash to finance its arbitration claim, to service debt and for working capital, including pursuing other business opportunities. The Company does not intend to declare or pay cash dividends in the near future, nor has it done so since its inception. In the event that the Company decides to declare and pay cash dividends in the future, such a decision will be made entirely in the discretion of the board of directors and shall be dependent on factors such as earnings, capital requirements, future business opportunities, financing agreements and market conditions for the Company's shares and the underlying commodities markets.