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Whitehorse, Yukon
Canada Y1A 3T2

European Goldfields Limited

Consolidated Financial Statements
(Audited)

31 December 2009 and 2008

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of European Goldfields Limited are the responsibility of management and have been approved by the Board of Directors of the Company. The consolidated financial statements include some amounts that are based on management's best estimate using reasonable judgment.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorised, assets safeguarded and proper records are maintained.

The Audit Committee of the Board of Directors has met with the Company's external auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by Ernst and Young LLP, Chartered Accountants, and their report follows.

(s) Martyn Konig
Martyn Konig
Executive Chairman

(s) Timothy Morgan-Wynne
Timothy Morgan-Wynne
Chief Financial Officer

Auditors' Report to the Shareholders of European Goldfields Limited

We have audited the consolidated balance sheet of European Goldfields Limited as at 31 December 2009 and the consolidated statements of profit and loss, other comprehensive income/(loss), shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether these consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at 31 December 2008 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their report dated 18 March, 2009.

(s) Ernst and Young
Chartered Accountants, Licensed Public Accountants
London, United Kingdom
March 18, 2010

European Goldfields Limited

Consolidated Balance Sheets

As at 31 December 2009 and 2008

(in thousands of US Dollars, except per share amounts)

	Note	2009 \$	2008 \$
Assets			
Current assets			
Cash and cash equivalents	17	113,642	170,296
Accounts receivable	5	26,813	20,057
Derivative financial asset	17	-	10,282
Current taxes receivable		3,954	3,820
Future tax assets	11	119	2,004
Prepaid expenses		13,794	1,414
Inventory	6	4,993	3,069
		<u>163,315</u>	<u>210,942</u>
Non-current assets			
Property, plant and equipment	7	96,100	74,401
Deferred exploration and development costs	8		
Greek production stage mineral properties		24,051	26,652
Greek development stage mineral properties		405,146	403,907
		<u>429,197</u>	<u>430,559</u>
Romanian development stage mineral properties		50,173	45,187
Turkish exploration stage mineral properties		1,625	456
		<u>480,995</u>	<u>476,202</u>
Investment in associates	9	711	2,075
Investment other	10	1,490	-
Future tax assets	11	1,489	2,475
		<u>744,100</u>	<u>766,095</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	12,684	16,263
Derivative financial liability	17	1,064	-
Deferred revenue	14	4,549	-
Future tax liabilities	11	-	3,496
		<u>18,297</u>	<u>19,759</u>
Non-current liabilities			
Future tax liabilities	11	90,083	90,294
Asset retirement obligation	13	7,068	6,937
Deferred revenue	14	48,412	58,496
		<u>145,563</u>	<u>155,727</u>
Non-controlling interest		2,930	2,874
Shareholders' equity			
Capital stock	15	545,180	538,316
Contributed surplus	15	10,047	7,788
Accumulated other comprehensive income	15	35,911	43,676
Deficit		(13,828)	(2,045)
		<u>577,310</u>	<u>587,735</u>
		<u>744,100</u>	<u>766,095</u>

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors

(s) Timothy Morgan-Wynne
Timothy Morgan-Wynne, Director

(s) Bruce Burrows
Bruce Burrows, Director

European Goldfields Limited

Consolidated Statements of Profit and Loss
For the years ended 31 December 2009 and 2008
(in thousands of US Dollars, except per share amounts)

	Note	2009 \$	2008 \$
Income			
Sales		62,712	60,044
Cost of sales	6	(44,030)	(48,424)
Depreciation and depletion		(7,012)	(5,973)
Gross profit		<u>11,670</u>	<u>5,647</u>
Other income			
Hedge contract profit		5,621	4,918
Interest income		625	5,729
Foreign exchange loss		(1,576)	(6,406)
Loss in dilution of interest in associates	9	(36)	-
Share of loss of associate	9	(76)	(105)
		<u>4,558</u>	<u>4,136</u>
Expenses			
Corporate administrative and overhead expenses		7,295	4,859
Equity-based compensation expense		6,530	2,900
Hellas Gold administrative and overhead expenses		5,401	7,620
Hellas Gold water treatment expenses (non-operating mines)		3,390	5,189
Accretion of asset retirement obligation	13	131	132
Depreciation		661	682
Write-down of mineral property	8	1,171	-
		<u>24,579</u>	<u>21,382</u>
Loss for the year before income taxes		<u>(8,351)</u>	<u>(11,599)</u>
Income taxes			
Current taxes	11	848	(1,454)
Future taxes		2,528	(15,185)
		<u>3,376</u>	<u>(16,639)</u>
(Loss)/Profit for the year after income taxes		<u>(11,727)</u>	<u>5,040</u>
Non-controlling interest		(56)	479
(Loss)/Profit for the year		<u>(11,783)</u>	<u>5,519</u>
Deficit – Beginning of year		<u>(2,045)</u>	<u>(7,564)</u>
Deficit – End of year		<u>(13,828)</u>	<u>(2,045)</u>
(Loss)/Earnings per share			
Basic	24	(0.07)	0.03
Diluted		(0.07)	0.03
Weighted average number of shares (in thousands)			
Basic		179,825	179,566
Diluted		179,825	181,223

The accompanying notes are an integral part of these consolidated financial statements.

European Goldfields Limited

Consolidated Statements of Shareholders' Equity

As at 31 December 2009 and 2008

(in thousands of US Dollars, except per share amounts)

	Capital Stock \$	Contributed Surplus \$	Accumulated Other Comprehensive Income \$	Deficit \$	Total \$
Balance – 31 December 2007	537,275	5,997	38,295	(7,564)	574,003
Equity-based compensation expense	-	2,788	-	-	2,788
Share issue costs	(10)	-	-	-	(10)
Restricted share units vested	973	(973)	-	-	-
Share options exercised or exchanged	78	(24)	-	-	54
Change in fair value of cash flow hedge	-	-	5,904	-	5,904
Movement in cumulative translation adjustment	-	-	(523)	-	(523)
Profit for the year	-	-	-	5,519	5,519
	<u>1,041</u>	<u>1,791</u>	<u>5,381</u>	<u>5,519</u>	<u>13,732</u>
Balance – 31 December 2008	538,316	7,788	43,676	(2,045)	587,735
Equity-based compensation expense	-	6,820	-	-	6,820
Share issue costs	(29)	-	-	-	(29)
Restricted share units vested	3,317	(3,317)	-	-	-
Share options exercised or exchanged	3,576	(1,244)	-	-	2,332
Change in fair value of cash flow hedge	-	-	(7,850)	-	(7,850)
Revaluation of available-for-sale asset	-	-	157	-	157
Movement in cumulative translation adjustment	-	-	(72)	-	(72)
Loss for the year	-	-	-	(11,783)	(11,783)
	<u>6,864</u>	<u>2,259</u>	<u>(7,765)</u>	<u>(11,783)</u>	<u>(10,425)</u>
Balance – 31 December 2009	545,180	10,047	35,911	(13,828)	577,310

The accompanying notes are an integral part of these consolidated financial statements.

European Goldfields Limited

Consolidated Statements of Cash Flows

For the years ended 31 December 2009 and 2008

(in thousands of US Dollars, except per share amounts)

	Note	2009 \$	2008 \$
Cash flows from operating activities			
(Loss)/Profit for the year		(11,783)	5,519
Foreign exchange loss		213	6,368
Share of loss in equity investment		76	105
Loss on change of interest in associates		36	-
Depreciation		4,046	3,336
Equity-based compensation expense		6,530	3,001
Accretion of asset retirement obligation	13	131	133
Future tax asset recognised		2,528	(15,185)
Non-controlling interest		56	(479)
Deferred revenue recognised	14	(5,535)	(6,399)
Depletion of mineral properties		3,816	3,398
Write-down of mineral property		1,171	-
		<u>1,285</u>	<u>(203)</u>
Net changes in non-cash working capital	19	<u>(13,665)</u>	<u>(9,776)</u>
		<u>(12,380)</u>	<u>(9,979)</u>
Cash flows from investing activities			
Deferred exploration and development costs – Romania		(5,478)	(6,096)
Property, plant and equipment – Greece		(25,288)	(26,181)
Deferred development costs – Greece		(2,096)	(2,489)
Deferred exploration costs – Turkey		(1,084)	(429)
Purchase of land		(88)	(2,705)
Purchase of equipment		(443)	(173)
Prepayments - equipment		(11,865)	-
Restricted investment		-	4,900
Investment in subsidiary		-	(14)
Investment in associates		(143)	(2,694)
		<u>(46,485)</u>	<u>(35,881)</u>
Cash flows from financing activities			
Deferred revenue		-	3,563
Proceeds from exercise of share options		2,332	54
Share issue costs		-	(10)
		<u>2,332</u>	<u>3,607</u>
Effect of foreign currency translation on cash		<u>(121)</u>	<u>(6,290)</u>
Decrease in cash and cash equivalents		(56,654)	(48,543)
Cash and cash equivalents – Beginning of year		170,296	218,839
Cash and cash equivalents – End of year		<u>113,642</u>	<u>170,296</u>

The accompanying notes are an integral part of these consolidated financial statements.

European Goldfields Limited

Consolidated Statements of Other Comprehensive Income/(Loss)

For the years ended 31 December 2009 and 2008

(in thousands of US Dollars, except per share amounts)

	2009	2008
	\$	\$
(Loss)/Profit for the year	(11,783)	5,519
Other comprehensive income/(loss) in the year		
Currency translation adjustment	(72)	(523)
Gains and losses on derivative designated as cash flow hedges	(2,229)	10,822
Gains and losses on derivative designated as cash flow hedges in prior periods transferred to profit in the current year	(5,621)	(4,918)
Unrealised gain on available-for-sale financial asset	157	-
Comprehensive income/(loss)	(19,548)	10,900

The accompanying notes are not part of these consolidated financial statements.

European Goldfields Limited

Notes to Consolidated Financial Statements
For the years ended 31 December 2009 and 2008
(in thousands of US Dollars, except per share amounts)

1. Nature of operations

European Goldfields Limited (the “**Company**”), a company incorporated under the *Yukon Business Corporations Act*, is a resource company involved in the acquisition, exploration and development of mineral properties in Greece, Romania and South-East Europe.

The Company’s common shares are listed on the AIM Market of the London Stock Exchange and on the Toronto Stock Exchange (TSX) under the symbol “EGU”.

The Company is a developer-producer with globally significant gold reserves located within the European Union. The Company generates cash flow from its 95% owned Stratonis operation, a high grade lead/zinc/silver mine in North-Eastern Greece and the sale of gold concentrates from Olympias. European Goldfields will evolve into a mid tier producer through responsible development of its project pipeline of gold and base metal deposits at Skouries and Olympias in Greece and Certej in Romania. The Company plans future growth through development of its highly prospective exploration portfolio in Greece, Romania and Turkey.

The underlying value of the deferred exploration and development costs for mineral properties is dependent upon the existence and economic recovery of reserves in the future, and the ability to fund the development of the properties.

For the coming year, the Company believes it has adequate funds available to meet its corporate and administrative obligations and its planned expenditures on its mineral properties.

2. Basis of Presentation

These consolidated financial statements have been prepared on a going concern basis in accordance with accounting principles generally accepted in Canada (“**Canadian GAAP**”), which assumes the Company will be able to realise assets and discharge liabilities in the normal course of business for the foreseeable future. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

3. Significant accounting policies

These consolidated financial statements reflect the following significant accounting policies.

Basis of consolidation – Business acquisitions are accounted for under the purchase method and the results of operations of these businesses are included in these consolidated financial statements from the acquisition date. Investments in associates over which the Company has significant influence are accounted for using the equity method.

European Goldfields Limited

Notes to Consolidated Financial Statements

For the years ended 31 December 2009 and 2008

(in thousands of US Dollars, except per share amounts)

These consolidated financial statements include the accounts of the Company and the following subsidiaries:

Company	Country of incorporation	Ownership
Deva Gold (Barbados) Ltd	Barbados	100% owned
European Goldfields (Services) Limited	England	100% owned
European Goldfields Mining (Netherlands) B.V.	Netherlands	100% owned
European Goldfields (Greece) B.V.	Netherlands	100% owned
Hellas Gold B.V.	Netherlands	100% owned
European Goldfields Deva SRL	Romania	100% owned
Hellas Gold S.A.	Greece	95% owned
Deva Gold S.A.	Romania	80% owned
Greater Pontides Exploration B.V.	Netherlands	51% owned
Pontid Madencilik San. ve Ltd	Turkey	51% owned
Pontid Altin Madencilik Ltd. Sti.	Turkey	51% owned
Greek Nurseries SA	Greece	50% owned
Macedonian Copper Mines SA	Greece	100% owned

The 20% minority interest held in the Company's 80% owned subsidiary, Deva Gold S.A. ("**Deva Gold**"), is accounted for in these consolidated financial statements. The Company is required to fund 100% of all costs related to the exploration and development of the mineral properties held by Deva Gold. As a result, the Company is entitled to the refund of such costs (plus interest) out of future cash flows generated by Deva Gold, prior to any dividends being distributed to shareholders.

Associates – Associates are those entities in which the Company has a material long term interest and in respect of which the group exercises significant influence over operational and financial policies, normally owning between 20% and 50% of the voting equity, but which it does not control.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Company's share of its associates' post-acquisition profits or losses is recognised in the statement of profit and loss. Cumulative post-acquisition movements are adjusted against the carrying amount of investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has unsecured obligations or made payments on behalf of the associate.

When the group no longer has significant influence over an associate, accounting for the investment as an associate ceases. The carrying value of the investment in the associate at the date it ceases to be an associate is transferred to the new designated class of financial asset. The investment is then accounted for under the requirements of the new financial asset designation.

Investments – Available-for-sale financial assets are those non-derivative financial assets, principally equity securities, that are designated as available-for-sale or are not classified in any other investment category. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date.

European Goldfields Limited

Notes to Consolidated Financial Statements

For the years ended 31 December 2009 and 2008

(in thousands of US Dollars, except per share amounts)

Inventory – Inventories of ore mined and metal concentrates are valued at the lower of combined production cost and net realisable value. Production costs include the costs directly related to bringing the inventory to its current condition and location, such as materials, labour, mine site overheads, related depreciation of mining and processing facilities and related depletion of mineral properties and deferred exploration and development costs. Exploration materials and supplies are valued at the lower of cost and net realisable value and on a weighted average basis.

Property, plant and equipment – Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis based on a useful life of 3 years for office equipment, 6 years for vehicles, 10 years for leasehold improvements, at rates varying between 3 and 5 years for exploration equipment and at rates varying between 4 and 20 years for buildings. Depreciation for equipment used for exploration and development are capitalised to mineral properties.

Deferred exploration and development costs – Acquisition costs of resource properties, together with direct exploration and development costs incurred thereon, are deferred and capitalised. Upon reaching commercial production, these capitalised costs are transferred from exploration properties to producing properties on the consolidated balance sheets and are amortised into operations using the unit-of-production method over the estimated useful life of the estimated related ore reserves.

Based on annual impairment reviews made by management, in the event that the long-term expectation is that the net carrying amount of these capitalised exploration and development costs will not be recovered such as would be indicated where:

- Producing properties:
 - the carrying amounts of the capitalised costs exceed the related undiscounted net cash flows of reserves;
- Exploration properties:
 - exploration activities have ceased;
 - exploration results are not promising such that exploration will not be planned for the foreseeable future;
 - lease ownership rights expire; or
 - insufficient funding is available to complete the exploration program;

then the carrying amount is written down to fair value accordingly and the write-down amount charged to operations.

Impairment of long-lived assets – All long-lived assets and intangibles held and used by the Company are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognised based on the fair value of the assets.

Asset retirement obligation – The fair value of the liability of an asset retirement obligation is recorded when it is legally incurred and the corresponding increase to the mineral property is depreciated over the life of the mineral property. The liability is adjusted over time to reflect an accretion element considered in the initial measurement at fair value and revisions to the timing or amount of original estimates and for drawdowns as asset retirement expenditures are incurred. As at 31 December 2009 and 2008, the Company had an asset retirement obligation relating to its Stratoni property in Greece.

European Goldfields Limited

Notes to Consolidated Financial Statements

For the years ended 31 December 2009 and 2008

(in thousands of US Dollars, except per share amounts)

Deferred revenue – The Company receives prepayments for the sale of all of the silver metal to be produced from ore extracted during the mine-life within an area of some 7 km² around its zinc-lead-silver Stratoni mine as well as for sale of gold pyrite concentrate in northern Greece. The prepayment, which is accounted for as deferred revenue, is recognised as sales revenue on the basis of the proportion of the settlements during the period expected to the total settlements.

Revenue recognition – Revenues from the sale of concentrates are recognised and are measured at market prices when the rights and obligations of ownership pass to the customer. A number of the Company's concentrate products are sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. These concentrates are provisionally priced at the time of sale based on forward prices for the expected date of the final settlement. The terms of the contracts result in non-hedge derivatives that do not qualify for hedge accounting treatment, because of the difference between the provisional price and the final settlement price. These embedded derivatives are adjusted to fair value through revenue each period until the date of final price determination. Subsequent variations in the price are recognised as revenue adjustments as they occur until the price is finalised.

Income taxes – Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognised for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The benefit of the temporary differences is not recognised to the extent the recoverability of future income tax assets is not considered more likely than not.

Equity-based compensation – The Company operates a share option plan and a restricted share unit plan. The Company accounts for equity-based compensation granted under such plans using the fair value method of accounting. Under such method, the cost of equity-based compensation is estimated at fair value and is recognised in the profit and loss statement as an expense, or recognised as deferred exploration and development costs when the compensation can be attributed to mineral properties. This cost is recognised over the relevant vesting period for grants to directors, officers and employees, and measured in full at the earlier of performance completed or vesting for grants to non-employees. Any consideration received by the Company on exercise of share options is credited to share capital.

Cash settled awards – The Company operates a deferred phantom unit plan. The Company accounts for the compensation using the fair value method. The cost of each unit is recognised at the date of grant and is marked-to-market based on the Company's share price at the end of every reporting period.

Earnings per share ("EPS") – EPS is calculated based on the weighted average number of common shares issued and outstanding. Diluted per share amounts are calculated using the treasury stock method whereby proceeds deemed to be received on the exercise or exchange of share options and warrants and on the granting of restricted share units in the per share calculation are applied to reacquire common shares at the average market price during the period.

Foreign currency translation – The Company's functional currency is the United States dollar. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities and revenue and expenses arising from foreign currency transactions are translated at the exchange rate in effect at the date of the transaction. Exchange gains or losses arising from the translation are included in operations.

Integrated foreign subsidiaries and associates are accounted for under the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenue and expenses are translated at actual or average rates for the period. Exchange gains or losses arising from the translation are included in operations except for those related to mineral properties which are capitalised.

European Goldfields Limited

Notes to Consolidated Financial Statements

For the years ended 31 December 2009 and 2008

(in thousands of US Dollars, except per share amounts)

Self-sustaining foreign subsidiaries and associates are accounted for under the current rate method. Under this method, all assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Revenue and expenses are translated at actual or average rates for the period. Exchange gains or losses arising from the translation are recorded in equity in the cumulative translation adjustment component of other comprehensive income.

Estimates, risks and uncertainties – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Significant estimates and assumptions include those related to the recoverability of deferred exploration, development costs for mineral properties, asset retirement obligations and equity-based compensation. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

Financial instruments – The Company's investments and investments in marketable securities have been classified as available-for-sale and are recorded at fair value on the balance sheet. Fair values are determined directly by reference to published price quotations in an active market. Changes in the fair value of these instruments are reflected in other comprehensive income and included in shareholders' equity on the balance sheet.

All derivatives are recorded on the balance sheet at fair value. Marked-to-market adjustments on these instruments are included in net profit, unless the instruments are designated as part of a cash flow hedge relationship.

All other financial instruments are recorded at cost or amortised cost, subject to impairment reviews. Transaction costs incurred to acquire financial instruments are included in the underlying balance.

Cash and cash equivalents – Cash and cash equivalents include cash and deposits with original maturities of three months or less.

Hedges – The Company uses derivative and non-derivative financial instruments to manage changes in commodity prices. Hedge accounting is optional and it requires the Company to document the hedging relationship and test the hedging item's effectiveness in offsetting changes in fair values or cash flows of the underlying hedged item on an ongoing basis.

The Company uses cash flow hedges to manage base metal commodity prices. The effective portion of the change in fair value of a cash flow hedging instrument is recorded in other comprehensive income and is reclassified to earnings when the hedge item impacts profit. Any ineffectiveness is recorded in net profit.

If a derivative instrument designated as a cash flow hedge ceases to be effective or is terminated, hedge accounting is discontinued and the gain or loss at that date is deferred in other comprehensive income and recognised concurrently with the settlement of the related transaction. If a hedged anticipated transaction is no longer probable, the gain or loss is recognised immediately in profit. Subsequent gains and losses from ineffective derivative instruments are recognised in profit in the period they occur.

European Goldfields Limited

Notes to Consolidated Financial Statements

For the years ended 31 December 2009 and 2008

(in thousands of US Dollars, except per share amounts)

Comprehensive income – Comprehensive income includes both net profit and other comprehensive income. Other comprehensive income includes holding gains and losses on available-for-sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realised.

Capital disclosure – Effective 1 January 2008, the Company adopted CICA Handbook, Section 1535, Capital disclosures. The new standard requires disclosures of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital.

4. Significant changes in accounting policies

Goodwill and intangible assets – In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064 Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company adopted the new standards on 1 January 2009. The adoption of this new Section had no impact on the consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC 173) – In January 2009, the CICA issued EIC 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after 1 January 2009. The adoption of this new accounting policy did not have any impact on the Company's consolidated financial statements.

Mining Exploration Costs (EIC 174) – In March 2009, the CICA issued EIC Abstract 174, "Mining Exploration Costs". The EIC provides guidance on the accounting and the impairment review of exploration costs. This EIC applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after 1 January 2009. The adoption of this new accounting policy did not have any material impact on the Company's consolidated financial statements.

European Goldfields Limited

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(in thousands of US Dollars, except per share amounts)

5. Accounts receivable

This balance comprises the following:

	2009 \$	2008 \$
Value added taxes recoverable	18,360	11,780
Accounts receivable	8,453	8,277
	<u>26,813</u>	<u>20,057</u>

6. Inventory

This balance comprises the following:

	2009 \$	2008 \$
Ore mined	102	397
Metal concentrates	2,195	767
Material and supplies	2,696	1,905
	<u>4,993</u>	<u>3,069</u>

The components of cost of sales were as follows:

	2009 \$	2008 \$
Mining cost	24,907	28,313
Direct labour	4,611	4,991
Indirect labour	520	964
Other overhead costs	6,162	7,259
Increase in gross inventories	(1,311)	(1,100)
Freight charges	9,141	7,044
Write-down of inventory to net realisable value	-	953
	<u>44,030</u>	<u>48,424</u>

As at 31 December 2009, the value of total inventory carried at net realisable value amounted to Nil (2008 – \$767), which includes a write-down of Nil (2008 – \$953).

European Goldfields Limited

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For the years ended 31 December 2009 and 2008
(in thousands of US Dollars, except per share amounts)

7. Property, plant and equipment

	Plant and equipment \$	Vehicles \$	Mine development land and buildings \$	Total \$
Cost – 2008				
At 31 December 2007	31,701	1,932	21,523	55,156
Additions	14,674	138	14,215	29,027
Disposals	(21)	(8)	-	(29)
At 31 December 2008	<u>46,354</u>	<u>2,062</u>	<u>35,738</u>	<u>84,154</u>
Accumulated depreciation – 2008				
At 31 December 2007	3,151	1,076	2,153	6,380
Provision for the year	1,527	215	1,648	3,390
Disposals	(10)	(7)	-	(17)
At 31 December 2008	<u>4,668</u>	<u>1,284</u>	<u>3,801</u>	<u>9,753</u>
Net book value at 31 December 2008	<u>41,686</u>	<u>778</u>	<u>31,937</u>	<u>74,401</u>
Cost – 2009				
At 31 December 2008	46,354	2,062	35,738	84,154
Additions	17,886	143	7,726	25,755
Disposals	-	(98)	-	(98)
At 31 December 2009	<u>64,240</u>	<u>2,107</u>	<u>43,464</u>	<u>109,811</u>
Accumulated depreciation – 2009				
At 31 December 2008	4,668	1,284	3,801	9,753
Provision for the year	1,601	204	2,251	4,056
Disposals	-	(98)	-	(98)
At 31 December 2009	<u>6,269</u>	<u>1,390</u>	<u>6,052</u>	<u>13,711</u>
Net book value at 31 December 2009	<u>57,971</u>	<u>717</u>	<u>37,412</u>	<u>96,100</u>

During 2009, the total depreciation charge amounted to \$4,056 (2008 – \$3,390) and the net book value amount of property, plant and equipment not amortised amounted to \$75,499 (2008 – \$43,098).

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8. Deferred exploration and development costs

Greek mineral properties:

	Stratoni \$	Olympias \$	Skouries \$	Other exploration \$	Total \$
Balance – 31 December 2007	29,199	237,356	164,641	158	431,354
Acquisition of mineral properties	-	-	78	-	78
Deferred development costs	502	369	1,573	95	2,539
Depletion of mineral properties	(3,049)	(363)	-	-	(3,412)
	(2,547)	6	1,651	95	(795)
Balance – 31 December 2008	26,652	237,362	166,292	253	430,559
Acquisition of mineral properties	-	-	-	-	-
Deferred development costs	636	606	1,257	33	2,532
Depletion of mineral properties	(3,237)	(657)	-	-	(3,894)
	(2,601)	(51)	1,257	33	(1,362)
Balance – 31 December 2009	24,051	237,311	167,549	286	429,197

The Stratoni, Skouries and Olympias properties are held by the Company's 95% owned subsidiary, Hellas Gold. In September 2005, the Stratoni property commenced production.

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Romanian mineral properties:

	Certej \$	Other exploration \$	Total \$
Balance – 31 December 2007	<u>32,915</u>	<u>5,370</u>	<u>38,285</u>
Project development and exploration	2,158	420	2,578
Project management	1,894	376	2,270
Project overhead	1,795	170	1,965
Depreciation	70	19	89
	<u>5,917</u>	<u>985</u>	<u>6,902</u>
Balance – 31 December 2008	<u>38,832</u>	<u>6,355</u>	<u>45,187</u>
Project development and exploration	3,672	547	4,219
Permit acquisition	157	-	157
Write-down of mineral property	-	(1,171)	(1,171)
Project overhead	1,551	159	1,710
Depreciation	58	13	71
	<u>5,438</u>	<u>(452)</u>	<u>4,986</u>
Balance – 31 December 2009	<u>44,270</u>	<u>5,903</u>	<u>50,173</u>

The Certej exploitation licence and the Baita-Craciunesti exploration licence are held by the Company's 80%-owned subsidiary, Deva Gold. Minvest S.A. (a Romanian state owned mining company), together with three private Romanian companies, hold the remaining 20% interest in Deva Gold. The Company is required to fund 100% of all costs related to the exploration and development of these properties. As a result, the Company is entitled to the refund of such costs (plus interest) out of future cash flows generated by Deva Gold, prior to any dividends being distributed to shareholders. The Voia and Cainel exploration licences are held by the Company's wholly-owned subsidiary, European Goldfields Deva SRL.

Since the award of the Cainel Exploration Licence in 2005, the Company conducted an extensive programme of mapping, surface sampling, investigation of historic workings and dumps, drilling and geological interpretation on the property. This work concluded that the main mineralised structures had been mined out to practical mining depths and that there were no indications of significant extensions to the known mineralisation. Permit wide soil sampling was completed in 2009 which identified no other near surface resources and therefore the decision was made by the Company to relinquish the licence. A total of \$1,171 was written down being historic costs capitalised relating to Cainel.

As at the 31 December 2009, the following cost had been incurred on the remaining Romanian mineral properties:

	2009 \$	2008 \$
Baita-Craciunesti	3,334	3,312
Voia	1,847	1,741
Magura Tebii	181	136
Exploration projects	541	44
Cainel	-	1,122
	<u>5,903</u>	<u>6,355</u>

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Turkish Mineral Properties:

	Ardala \$	Other exploration \$	Total \$
Balance – 31 December 2007	-	-	-
Exploration	30	2	32
Project overhead	402	5	407
Permit acquisition	6	-	6
Depreciation	11	-	11
	<u>449</u>	<u>7</u>	<u>456</u>
Balance – 31 December 2008	<u>449</u>	<u>7</u>	<u>456</u>
Exploration	225	40	265
Project overhead	695	108	803
Permit acquisition	86	-	86
Depreciation	13	2	15
	<u>1,019</u>	<u>150</u>	<u>1,169</u>
Balance – 31 December 2009	<u>1,468</u>	<u>157</u>	<u>1,625</u>

In April 2008, the Company entered into a Joint Venture (“**JV**”) with Ariana Resources plc (“**Ariana**”) which became effective in May 2008 after the transfer of Ariana’s properties was confirmed by the General Directorate of Mining Affairs in Turkey. The JV involves the development of Ariana’s current properties in an Area of Intent (“**AOI**”) in the Greater Pontides region of north-eastern Turkey, which include the Ardala copper-gold porphyry and fifteen other licences covering a total area of 229km², and a Strategic Partnership within the AOI to define new opportunities for the JV.

The Turkish licences are held by the JV through a Turkish Company, Pontid Madencilik. Currently the Company has a 51% interest in all the properties within the JV and the Company will fund 100% of all costs related to the development of these properties. Ownership of the Ardala property may be increased to 80% by funding to completion of a Bankable Feasibility Study. All other concessions within the JV funded to a Bankable Feasibility Study will be 90% owned by the Company. The owner of the remaining 49% of the properties is Ariana Resources plc.

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9. Investment in associates

	2009 \$	2008 \$
Balance – Beginning of year	2,075	-
Shares acquired	141	2,692
Share of loss of associate	(76)	(105)
Cumulative translation adjustment	(32)	(517)
Equity-based compensation expense	-	5
Share issue cost	(28)	-
Loss in dilution of interest in associates	(36)	-
Reclassification as investment available-for-sale	(1,333)	-
Balance – End of year	<u>711</u>	<u>2,075</u>

In January 2008, Hellas Gold acquired a 50% share of Greek Nurseries SA for a consideration of \$834 (€530), at the date of acquisition the Company had no net assets.

In May 2008, the Company subscribed for 20.13% of the issued share capital of Ariana through a \$1,858 (£929) private placement of shares. The difference between the cost of the investment of \$1,830 and the underlying net book value of Ariana was \$132 at the date of acquisition. This excess represents additional fair value assigned to mineral properties of Ariana and will be depleted upon commencement of mining operations of Ariana.

In January 2009, Ariana performed a share issue which the Company took part in, however this resulted in a dilution of ownership as the Company did not subscribe to 20.13% of the new shares being issued. After the share issue the Company held 19.87% interest in Ariana. During September 2009, Ariana carried out a further share placement in which the Company did not subscribe and as at 31 December 2009, the Company held 16.58% of the issued share capital. Since October 2009, the Company no longer has a representative on the board of Ariana and therefore no longer has significant influence and therefore accounted for its investment in Ariana as an investment available-for-sale.

10. Investment other

	2009 \$	2008 \$
Balance – Beginning of year	-	-
Reclassification from investment in associate	1,333	-
Fair value adjustment	157	-
Balance – End of year	<u>1,490</u>	<u>-</u>

The above investment is accounted for as an available-for-sale asset.

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11. Income taxes

The following table reconciles the expected income tax recovery at the Canadian statutory income tax rate to the amounts recognised in the consolidated statements of profit and loss:

	2009	2008
	\$	\$
Income tax rate	34.00%	34.50%
Income taxes at statutory rates	(2,839)	4,002
Tax rate difference from foreign jurisdictions	323	1,205
Permanent differences	(391)	3,149
Under provision prior year	654	-
Change in tax rate	(60)	(18,434)
Change in valuation allowance	5,689	1,443
	<u>3,376</u>	<u>(16,639)</u>

The following table reflects future income tax assets:

	2009	2008
	\$	\$
Loss carry forwards	10,091	8,693
Intangibles	-	2
Plant and equipment	45	-
Retirement obligation	1,396	1,323
Inventory	-	3
Personal indemnities	47	39
Capital raising costs	853	1,108
Valuation allowance	(10,824)	(6,689)
	<u>1,608</u>	<u>4,479</u>
Less: Current portion	(119)	(2,004)
Future income tax assets recognised	<u>1,489</u>	<u>2,475</u>

The following table reflects future income tax liabilities:

	2009	2008
	\$	\$
Mineral properties	84,491	85,167
Plant and equipment	1,329	882
Exploration and development expenditure	3,187	2,709
Accrued expenses & other	286	-
Inventory	10	-
Retirement obligation	780	873
Hedge contract	-	3,496
Foreign exchange	-	663
	<u>90,083</u>	<u>93,790</u>
Less: Current portion	-	(3,496)
Future income tax liabilities recognised	<u>90,083</u>	<u>90,294</u>

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The tax liability arises as a result of the increase in value placed on the mineral properties held by Hellas Gold on acquisition by the Company. This future tax liability will reverse as the corresponding mineral properties are amortised.

As at 31 December 2009, the Company has available tax losses for income tax purposes of \$36,258 (2008 – \$29,656) which may be carried forward to reduce taxable income derived in future years.

The non-capital losses expire as follows:

	2009
	\$
2016	4,254
Non expiring losses	32,004
	<u>36,258</u>

In addition, the Company incurred share issue costs and other deductible temporary differences, which have not yet been claimed for income tax purposes, totalling as at 31 December 2009 \$1,357 (2008 – \$2,828).

A valuation allowance has been provided as a portion of the potential income tax benefits of these carry-forward non-capital losses and deductible temporary differences and the realisation thereof is not considered more likely than not.

12. Accounts payable and accrued liabilities

The balance principally comprises amounts outstanding for normal operations and ongoing costs. The average credit period taken during the financial year ended 31 December 2009 was 30 days (2008 – 30 days).

13. Asset retirement obligation

Management has estimated the total future asset retirement obligation based on the Company's ownership interest in the Stratoni mines and facilities. This includes all estimated costs to dismantle, remove, reclaim and abandon the facilities at the Stratoni property, and the estimated time period during which these costs will be incurred in the future. The following table reconciles the asset retirement obligation for the financial years ended 31 December 2009 and 2008:

	2009	2008
	\$	\$
Asset retirement obligation – Beginning of year	6,937	6,805
Accretion expense	131	132
Asset retirement obligation – End of year	<u>7,068</u>	<u>6,937</u>

As at 31 December 2009, the undiscounted amount of estimated cash flows required to settle the obligation is \$7,805 (2008 – \$7,805). The estimated cash flow has been discounted using a credit adjusted risk free rate of 5.04% (2008 – 5.04%). The expected period until settlement is five years.

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14. Deferred revenue

In April 2007, Hellas Gold agreed to sell to Silver Wheaton (Caymans) Ltd. ("**Silver Wheaton**") all of the silver metal to be produced from ore extracted during the mine-life within an area of some 7 km² around its zinc-lead-silver Stratoni mine in northern Greece (the "**Silver Wheaton Transaction**"). The sale was made in consideration of a prepayment to Hellas Gold of \$57.5 million in cash, plus a fee per ounce of payable silver to be delivered to Silver Wheaton of the lesser of \$3.90 (subject to an inflationary adjustment beginning after year three) and the prevailing market price per ounce. During the year ended 31 December 2009, Hellas Gold delivered concentrate containing ounces 772,865 (2008 – 1,038,762 ounces) of silver for credit to Silver Wheaton.

In April 2007, Hellas Gold entered in an agreement with MRI Trading AG ("**MRI**") for the sale of 25,000 wet metric tonnes of gold bearing pyrite concentrate. Hellas Gold received a prepayment of \$2.18 million in cash. A further agreement with MRI was entered into in March 2008, for the sale of a further 23,372 dry metric tonnes, for which Hellas Gold received a prepayment of \$3.56 million in cash. The remaining balances relating to MRI prepayments were transferred to current liabilities reflecting the repayment of all prepaid amounts to MRI in February 2009. In September 2007, Hellas Gold entered into an agreement with a subsidiary of Celtic Resources Holdings ("**Celtic**") Plc for the sale of 50,000 wet metric tonnes of gold bearing pyrite concentrate, for which Hellas Gold received a prepayment of \$4.71 million in cash. During the year a total of 24,680 wmt (2008 – 3,000 wmt) of concentrate was delivered to Celtic.

The following table reconciles movements on deferred revenue associated with the MRI, Celtic and the Silver Wheaton transaction:

	2009	2008
	\$	\$
Deferred revenue – Beginning of year	58,496	65,344
Additions	-	3,564
Revenue recognised	(5,535)	(6,399)
Transferred to current liabilities	-	(4,013)
	<u>52,961</u>	<u>58,496</u>
Less: Current portion	(4,549)	-
Deferred revenue – End of year	<u>48,412</u>	<u>58,496</u>

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15. Capital stock

Authorised:

- Unlimited number of common shares, without par value
- Unlimited number of preferred shares, issuable in series, without par value

Issued and outstanding (common shares – all fully paid)

	Number of Shares	Amount \$
Balance – 31 December 2007	179,162,381	537,275
Restricted share units vested	195,000	973
Share options exercised or exchanged	25,000	77
Share issue costs, net of tax	-	(9)
	<u>220,000</u>	<u>1,041</u>
Balance – 31 December 2008	179,382,381	538,316
Restricted share units vested	947,925	3,317
Share options exercised or exchanged	1,009,507	3,576
Share issue costs, net of tax	-	(29)
	<u>1,957,432</u>	<u>6,864</u>
Balance – 31 December 2009	181,339,813	545,180
Contributed surplus		
	2009	2008
	\$	\$
Equity-based compensation expense	9,469	7,210
Broker warrants	578	578
	<u>10,047</u>	<u>7,788</u>
Accumulated other comprehensive income		
The components of accumulated other comprehensive income were as follows:		
	2009	2008
	\$	\$
Cumulative translation adjustment	36,818	36,890
Fair value of cash flow hedge (net of tax)	(1,064)	6,786
Available-for-sale asset	157	-
	<u>35,911</u>	<u>43,676</u>

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16. Share options, restricted share units and deferred phantom units

Share Option Plan

The Company operates a Share Option Plan (together with its predecessor, the “**Share Option Plan**”) authorising the directors to grant options with a maximum term of 5 years, to acquire common shares of the Company to the directors, officers, employees and consultants of the Company and its subsidiaries, on terms that the Board of Directors may determine, within the limitations of the Share Option Plan. The maximum number of common shares of the Company which may be reserved for issuance for all purposes under the Share Option Plan shall not exceed 15% of the common shares issued and outstanding from time to time (27,200,927 shares as at 31 December 2009).

An option holder under the Share Option Plan may elect to dispose of its rights under all or part of its options (the “**Exchanged Rights**”) in exchange for the following number of common shares of the Company (or at the Company’s option for cash) in settlement thereof (the “**Settlement Common Shares**”):

$$\begin{array}{l} \text{Number of} \\ \text{Settlement} \\ \text{Common Shares} \end{array} = \begin{array}{l} \text{Number of Optioned Shares} \\ \text{issuable on exercise of the} \\ \text{Exchanged Rights} \end{array} \times \frac{(\text{Current Price} - \text{Exercise Price})}{\text{Current Price}}$$

As at 31 December 2009, the following share options were outstanding:

Expiry date	Number of Options	Exercise price C\$
2010	60,000	2.00
2011	66,666	3.25
2011	600,000	3.85
2011	50,000	4.10
2012	250,000	5.66
2012	150,000	5.71
2012	256,666	5.87
2013	50,000	1.99
2013	360,000	3.54
2013	135,000	5.07
2013	78,333	6.80
2014	1,300,000	6.00
2014	50,000	7.00
	3,406,665	5.10

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During the years ended 31 December 2009 and 2008, share options were granted, exercised, exchanged and forfeited as follows:

	Number of Options	Weighted average exercise price C\$
Balance – 31 December 2007	3,006,665	3.80
Options granted	1,010,000	4.64
Options exercised	(25,000)	2.11
Options exchanged for shares	-	-
Options forfeited	(500,000)	4.14
Balance – 31 December 2008	3,491,665	4.01
Options granted	1,350,000	6.04
Options exercised	(960,000)	2.72
Options exchanged for shares	(125,000)	4.46
Options forfeited	(50,000)	6.80
Options expired	(300,000)	4.18
Balance – 31 December 2009	3,406,665	5.10

Of the 3,406,665 (2008 – 3,491,665) share options outstanding as at 31 December 2009, 1,855,001 (2008 – 2,421,667) were fully vested and had a weighted average exercise price of C\$4.57 (2008 – C\$3.53) per share. The share options outstanding as at 31 December 2009, had a weighted average remaining contractual life of years 3.38 (2008 – 3.18 years).

The weighted average grant date fair value cost of the 1,350,000 share options granted during the financial year ended 31 December 2009 (2008 – 1,010,000) was \$3,221 (2008 – \$1,659). For outstanding share options, including options granted during the year and those which were not fully vested during the year ended 31 December 2009, the Company incurred a total equity-based compensation cost of \$2,039 (2008 – \$1,384) of which \$1,901 (2008 – \$1,057) has been recognised as an expense in the statement of profit and loss and \$138 (2008 – \$327) has been capitalised to deferred exploration and development costs.

The fair value of the share options granted has been estimated at the date of grant using a Black-Scholes and Parisian option pricing model with the following assumptions: weighted average risk free interest rate of 0.05% (2008 – 2.05% to 3.05%); volatility factor of the expected market price of the Company's shares of 68.03% (2008 – 32.86% to 89.59%); a weighted average expected life of the share options of 5 years (2008 – 5 years), maximum term of 5 years and a dividend yield of Nil (2008 – Nil).

In 2009, Nil (2008 – 500,000) options forfeited during the year represent options cancelled and were replaced with DPUs. These have been accounted for as a stock modification.

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Restricted Share Unit Plan

The Company operates a Restricted Share Unit Plan (the “**RSU Plan**”) authorising the directors, based on recommendations received from the Compensation Committee, to grant Restricted Share Units (“**RSUs**”) to designated directors, officers, employees and consultants. The RSUs are “phantom” shares that rise and fall in value based on the value of the Company’s common shares and are redeemed for actual common shares on the vesting dates determined by the Board of Directors when the RSUs are granted. The RSUs vest on the dates below; however, upon a change of control of the Company they would typically become 100% vested. The maximum number of common shares of the Company which may be reserved for issuance for all purposes under the RSU Plan shall not exceed 2.5% of the common shares issued and outstanding from time to time (4,533,495 shares as at 31 December 2009).

As at 31 December 2009, the following RSUs were outstanding:

Vesting date	Number of RSUs	Grant date fair value of underlying shares C\$
04 January 2010	187,911	2.65
04 January 2010	187,910	2.65
04 January 2010	50,000	6.99
31 March 2010	200,000	6.02
31 March 2010	165,411	6.18
08 December 2010	70,102	6.18
31 December 2010	200,000	6.02
31 December 2011	200,000	6.02
	1,216,334	5.09

During the years ended 31 December 2009 and 2008, RSUs were granted, vested and forfeited as follows:

	Number of RSUs	Weighted average grant date fair value of underlying shares C\$
Balance – 31 December 2007	185,000	4.86
RSUs granted	365,000	5.26
RSUs vested	(195,000)	5.08
RSUs forfeited	(150,000)	6.59
Balance – 31 December 2008	205,000	4.09
RSUs granted	2,104,259	4.52
RSUs vested	(947,925)	3.86
RSUs forfeited	(100,000)	2.74
Balance – 31 December 2009	1,261,334	5.09

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The weighted average grant date fair value cost of underlying shares of the 2,104,259 RSUs granted during the financial year ended 31 December 2009 (2008 – 365,000) was C\$4.52 (2008 – C\$5.26). For outstanding RSUs which were not fully vested, including RSU's granted during the year ended 31 December 2009, the Company incurred a total equity-based compensation cost of \$4,781 (2008 – \$1,399) of which \$3,793 (2008 – \$889) has been recognised as an expense in the statement of profit and loss and \$988 (2008 – \$510) has been capitalised to deferred exploration and development costs.

Deferred Phantom Unit Plan

The company operates a Deferred Phantom Unit plan (the “**DPU Plan**”) authorising the directors based on recommendation by the Human Capital Management Committee to grant Deferred Phantom Units (“**DPUs**”) to independent eligible directors. The DPU are units which give rise to a right to receive a cash payment the value of which, on a particular date should be the market value of the equivalent number of shares at that date. The market value at 31 December 2009 has been included in current liabilities.

As at 31 December 2009, the following DPUs were outstanding:

Grant date	Number of DPUs	Grant date Fair Value of DPUs C\$
05 December 2008	271,000	504,060
23 March 2009	6,184	22,448
15 May 2009	7,712	22,365
18 August 2009	6,918	22,690
07 October 2009	55,000	331,650
15 November 2009	4,596	32,906
	<u>351,410</u>	<u>936,119</u>

During the years ended 31 December 2009 and 2008, DPUs were granted and forfeited as follows:

	Number of DPUs	Fair Value of DPUs C\$
Balance – 31 December 2007	<u>-</u>	<u>-</u>
DPUs granted and vested	406,500	1.86
DPUs forfeited	-	-
Balance – 31 December 2008	<u>406,500</u>	<u>1.86</u>
DPUs granted and vested	90,817	5.13
DPUs forfeited	-	-
DPUs converted to RSU	(145,907)	1.96
Balance – 31 December 2009	<u>351,410</u>	<u>2.66</u>

Of the 90,817 (2008 – 416,500) DPU's granted during the year, 90,817 (2008 – 406,500) were fully vested.

The weighted average grant date fair value cost of the 90,817 DPUs granted during the financial year ended 31 December 2009 (2008 – 406,500) was \$409 (2008 – \$760). The weighted average fair value cost of the 351,410 DPUs as at the 31 December 2009, based on the year end share price, amounted to \$2,046 (2008 – \$1,054).

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17. Financial instruments and financial risk management

Financial exposures, in varying degrees, arise in the normal course of the Company's consolidated operations and include commodity price risk, foreign exchange risk, interest rate risk, liquidity risk and credit risk associated with trade and financial counterparties. These exposures are monitored by Senior Management and are assessed and mitigated in accordance to the Group Risk Management Policy.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and hedge contracts.

Short-term financial assets are amounts that are expected to be settled within one year. The carrying amounts in the consolidated balance sheets approximate fair value because of the short term nature of these instruments.

The carrying amounts of the financial instruments and their fair values as at 31 December 2009 and 2008 are as follows:

	Carrying amount		Fair value	
	2009	2008	2009	2008
Financial assets				
Cash and cash equivalents	113,642	170,296	113,642	170,296
Accounts receivable	26,813	20,057	26,813	20,057
Derivative financial asset	-	10,282	-	10,282
Available-for-sale asset	1,490	-	1,490	-
Financial liabilities				
Accounts payable and accrued liabilities	12,684	16,263	12,684	16,263
Derivative financial liability	1,064	-	1,064	-

	Fair Value 2009 Quoted market price (Level 1)	Fair Value 2009 Valuation technique market observation inputs (Level 2)
Financial assets		
Available-for-sale asset	1,490	-
Financial liabilities		
Derivative financial liability	-	1,064

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Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

For financial instruments not quoted in active markets, the Company used valuation techniques such as present value and Black - Scholes option valuation techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Commodity Price Risk – The Company's net profit and value of the mineral resource properties are related to the prices of gold, silver, copper, zinc and lead and the outlook for these commodities.

Gold prices historically have fluctuated widely and are affected by numerous factors outside of the company's control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by market participants, levels of worldwide production, macro-economic and political variables and certain other factors related specifically to gold. Silver and, in particular, base metal prices have historically tended to be driven more by the demand and supply fundamentals for each metal, however, they are also influenced by speculative activity, macro-economic and political variables and certain other factors related specifically to silver and base metals.

The long term profitability of the Company's operations is highly correlated to the market price of its commodities and in particular gold. To the extent that these prices increase, asset values increase and cash flows improve; conversely, declines in metal prices directly impact value and cash flows. A protracted period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value.

Hedging commitments – The Company enters into financial transactions in the normal course of business and in line with Board guidelines for the purpose of hedging and managing its expected exposure to commodity prices. There are a number of financial institutions which offer metal hedging services and the Company deals with highly rated banks and institutions who have demonstrated long term commitment to the mining industry. The Company has one counterparty in respect of its lead and zinc hedge contracts noted below. Market conditions and prices would affect the fair value of these hedge contracts and in certain market conditions, where the fair value of the hedge contract is positive to the Company, if this counterparty were unable to honour its obligations under the hedge contract, the Company would be exposed to the value of the hedge and the difference between the hedged price and the then current market price on the date of the settlement. The hedges below are treated as cash flow hedges in accordance with CICA 3865: Hedges.

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Lead and Zinc hedging contracts – As at 31 December 2009, the Company had entered into hedging arrangements as illustrated below which, for the amount of production shown, protect the Company from decreasing prices below the floor price and limit participation in increasing prices above the cap price. The period of the hedge is from 1 January 2010 until 31 December 2010 and is cash settled on a monthly basis between the monthly average of the relevant commodity price and the cap and floor price, as applicable. As at 31 December 2009, these contracts had a fair value of (\$1,064) (2008 – \$10,282), determined by a 3rd party valuation using the appropriate Black-Scholes options valuation model, based on the then prevailing market prices including lead and zinc prices, interest rates and market volatility.

Period January 2010 – December 2010

		<u>Lead</u>	<u>Zinc</u>
Total Volume	(tonne)	6,000	7,800
Monthly Volume	(tonne)	500	650
Floor Price	(\$/tonne)	2,000	2,000
Cap Price	(\$/tonne)	2,900	2,925

During the year ended 31 December 2009, the Company recorded income relating to its hedging program of \$5,621 (2008 – \$4,918).

Given the current maturity profile of the hedge, market expectations and parameters, we expect that the fair value of the existing hedge contracts (\$1,064) will be released to net income within the next 12 months.

Currency risk – The Company is exposed to currency risk on accounts receivable, accounts payable and cash holdings that are denominated in currencies other than the functional currencies of the operating entities in the group. As at the 31 December 2009, the Company held the equivalent of \$16,133 (2008 – \$30,246) in net assets denominated in foreign currencies. These balances are primarily made up of Euro and, to a lesser extent, Pound Sterling.

The Company publishes its consolidated financial statements in US dollars and as a result, it is also subject to foreign exchange translation risk in respect of Euro denominated assets and liabilities in its foreign operations.

For the year ended 31 December 2009 the Company recorded a foreign exchange loss of \$1,576 (2008 – a loss of \$6,406), mainly due to the translation of Euro balances in its subsidiaries.

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Liquidity risk – Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due.

The Company manages its liquidity risk by ensuring there is sufficient capital to meet working capital, short and long term business requirements after taking into account cash flows from operations and holdings of cash and cash equivalents. Senior management is actively involved in the review and approval of planned expenditures by regularly monitoring cash flows from operations and anticipated investing and financing activities.

The Company does not have any borrowing or debt facilities and settles its obligations out of cash and cash equivalents. The ability to do this relies on the Company collecting its accounts receivable in a timely manner and maintaining cash on hand.

Financial liabilities consist of trade payables, accrued liabilities and financial derivatives. As at 31 December 2009, the Company's trade payables and accrued liabilities amounted to \$12,684 (2008 – \$16,263), all of which fall due for payment within 12 months of the balance sheet date. The average credit period achieved during the year ended 31 December 2009 was 30 days (2008 – 30 days).

As at 31 December 2009, cash and cash equivalents comprises the following:

	2009 \$	2008 \$
Interest bearing bank accounts	102,686	123,297
Short-term deposits	10,956	46,999
	<u>113,642</u>	<u>170,296</u>

The Company has accounts receivable from trading counterparties to whom concentrate products are sold. Where traders are chosen as counterparties, only the larger and most financially secure metal trading groups are dealt with. The company may also transact agreements with trading groups who have direct interests in smelting capacity or direct to the smelters themselves.

Of the total trade receivable as at 31 December 2009, 4 (2008 – 3) customers represented 84% (2008 – 96%) of the total. The Company does not anticipate any loss for non-performance.

As at 31 December 2009, the accounts receivable comprises the following:

	2009 \$	2008 \$
Trade receivables	6,712	4,986
Valued added taxes recoverable	18,360	11,780
Other accounts receivable	1,741	3,291
	<u>26,813</u>	<u>20,057</u>

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As at 31 December 2009, the Company considers its accounts receivable excluding Value Added Taxes recoverable and other accounts receivable to be aged as follows:

Ageing	2009	2008
	\$	\$
Current	4,139	1,807
Past due (1-30 days)	2,283	2,632
Past due (31-60 days)	233	417
Past due (more than 60 days)	57	130
	<u>6,712</u>	<u>4,986</u>

Interest rate risk – The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash equivalents. The Company does not have any borrowings or debt facilities and seeks to maximise returns on cash equivalents without risking capital values. The Company's objectives of managing its cash and cash equivalents are to ensure sufficient liquid funds are maintained to meet day to day requirements and to place any amounts which are considered in excess of this on short-term deposits with the Company's banks to earn interest. The Company uses top rated institutions and ensures that access to the amounts can be gained at short notice. During the year ended 31 December 2009 the company earned interest income of \$625 (2008 – \$5,729) on cash and cash equivalents, based on rates of returns up to 3.5% (2008 – up to 4.40%).

Credit risk – Credit risk represents the financial loss the Company would suffer if the Company's counterparties to a financial instrument, in owing an amount to the Company, fail to meet or discharge their obligation to the Company.

Financial instruments that expose the Company to credit risk consist of cash and cash equivalents, accounts receivable and in certain market conditions, hedging contracts. The cash equivalents consist mainly of short-term investments, such as money market deposits. The Company does not invest in asset-backed commercial paper and has deposited the cash equivalents only with the largest banks within a particular region or with top rated institutions.

The Company's concentrate offtake arrangements also expose it to credit risk which would result should the Company's offtakers default under these arrangements, as a result of which the Company would not realise its trade receivable amount. The Company manages this exposure through assessing the offtaker's credit risk before entering the offtake agreement, the structure of the offtake contract and sells to a number of different offtakers which diversifies this risk

Included in the Company's accounts receivable is an amount of \$18,095 relating to value added taxes recoverable which is subject to Greek government credit risk.

Sensitivity analysis – The Company has completed a sensitivity analysis to estimate the impact on net (loss)/profit of a 5% change in foreign exchange rates, a 1% change in interest rates and a 10% change in base metal prices, excluding the effect of hedging, during the years ended 31 December 2009 and 2008. The results of the sensitivity analysis can be seen in the following table:

Impact on Net (Loss)/Profit (+/-)	2009	2008
	\$	\$
Change of - 5 % US\$: € foreign exchange rate	(1,676)	(460)
Change of + 5 % US\$: € foreign exchange rate	1,674	564
Change of +/- 1% in interest rates	890	1,321
Change of +/- 10% in commodities prices	8,281	5,417

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Limitations of sensitivity analysis – The above table demonstrates the effect of each sensitivity in isolation. In reality, there may be a correlation between a combination of any of these sensitivities. Additionally, the financial position of the Company may vary at the time any of these factors occurs, causing the impact on the Company's results to differ from that shown above.

18. Capital Risk Management

The Company's objectives when managing its capital are to maintain financial flexibility to achieve its long term business development plan, whilst managing its costs, optimizing its access to capital markets and preserving capital value. Further, it ensures that there is sufficient liquidity available to meet day to day operating requirements.

The Company currently has no debt and considers its Shareholders' Equity and cash and cash equivalents as components of its capital structure.

The Company's Board of Directors continually assesses the Company's capital through its short-term budgets and long-term development plan, meeting regularly through quarterly board meetings and regular communication with Officers and senior management to assess the requirements, changes to Company's set of assumptions and capital market conditions.

Going forward, as part of its capital management, the Company expects to raise a level of debt based on the forecast cashflows of its projects. As a result, the Company will need to comply with certain financial covenants and financial restrictions accordingly.

In order to maximise ongoing development efforts, the company does not pay out dividends.

The Company's investment policy is to invest its cash in high-grade investment securities with varying terms, maturity and counterparties, selected with regards to the expected timing of expenditures from continuing operations and counterparty risk.

The Company expects its current capital resources and anticipated debt raising will be sufficient to carry out its plans and operations through its current operating period.

The Company is not subject to externally imposed capital requirements and there has been no change in the overall capital risk management as at 31 December 2009.

Capital under management was as follows:

	2009 \$	2008 \$
Capital stock	545,180	538,316
Contributed surplus	10,047	7,788
Accumulated other comprehensive income	35,911	43,676
Deficit	(13,828)	(2,045)
	<u>577,310</u>	<u>587,735</u>

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19. Supplementary cash flow information

	2009 \$	2008 \$
Changes in non-cash working capital:		
Accounts receivable and prepaid expenses	(7,404)	(3,696)
Inventory	(1,845)	(943)
Accounts payable and accrued liabilities	(4,416)	(5,137)
	<u>(13,665)</u>	<u>(9,776)</u>
Supplemental disclosure of non-cash transactions:		
Share options and restricted share units issued for non-cash consideration	6,820	2,788
Exercise or exchange of share options – Transfer from contributed surplus to share capital	(1,244)	(24)
Vesting of restricted share units	(3,317)	(973)

20. Commitments

The Company has spending commitments of \$236 or £166 (2008 – \$180) per year (plus service charges and value added tax) for a term of ten years under the lease for its office in London, England, which commenced in April 2004. The rent was subject to an upward only review in April 2009, for which new rent became effective from November 2008.

Hellas Gold has spending commitments of \$150 (€104) per year for a term of 9 years under the lease for its office in Athens, Greece, which commenced in December 2007. The rent will be reviewed on the second anniversary of the commencement of the term to reflect any increase in rents in the market.

As at 31 December 2009, Hellas Gold had entered into off-take agreements pursuant to which Hellas Gold agreed to sell 37,050 dmt of zinc concentrates, 5,778 dmt of lead/silver concentrates and 106,489 dmt of gold concentrates until the financial year ending 2012.

During 2007, Hellas Gold entered into purchase agreements with Outotec Minerals OY for long-lead time equipment for the Skouries project with a cost of \$46,657 (€34,470) which is to be paid by the end of 2009. As at 31 December 2009, \$46,062 (€31,974) of the commitment had been paid. Hellas Gold has pledged \$1,105 (€762) in support of a letter of credit issued on behalf of Outotec Minerals OY through Nordea Bank of Finland.

21. Transactions with related parties

Aktor S.A (“**Aktor**”) Greece’s largest construction Company owns 5% of Hellas Gold the Company’s 95% owned subsidiary. Aktor is a 100% subsidiary of Ellaktor S.A., which owns 19.7% of the Company’s issued share capital. Aktor, which is deemed a related party, contracts management, technical and engineering services to Hellas Gold.

During the year ended 31 December 2009, Hellas Gold incurred costs of \$33,566 (2008 – \$41,852) which have been recognised as cost of sales in the statements of profit and loss and capitalised to property, plant and equipment, for services received from Aktor. As at 31 December 2009, Hellas Gold had accounts payable of \$3,881 (2008 – \$3,637) to Aktor. These expenditures were contracted in the normal course of operations and are recorded at the exchange amount agreed by the parties. The terms of the payable is 30 days (2008 – 30 days).

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22. Segmented report

During 2009, the Company had four reporting segments. The Company has identified its operating segments based on internal reports prepared by management. Management has identified the operating segments based on the location of its activities. The Company's operations are managed on a regional basis. The Greek reporting segment includes the production activities of the Stratonis mine and development activities of the Olympias and Skouries. The Romanian reporting segment includes the development activities of the Certej project. The Turkish reporting segment includes the exploration activities of the Ardala project. The other reporting segment includes the operation of the Company's corporate office. The accounting policy used by the Company in reporting segments are in accordance with the measurement principles of Canadian GAAP.

	Greece	Romania	Turkey	Corporate	2009 Total
Assets					
Production stage mineral properties	24,051	-	-	-	24,051
Development stage mineral properties	405,146	50,173	-	-	455,319
Exploration stage mineral properties	-	-	1,625	-	1,625
Property, plant and equipment	92,711	3,102	53	234	96,100
Segment assets	<u>521,908</u>	<u>53,275</u>	<u>1,678</u>	<u>234</u>	<u>577,095</u>
Income					
Sales to external customers					
Concentrate sales	39,563	-	-	-	39,563
Gold pyrite sales	23,149	-	-	-	23,149
Total segment income	<u>62,712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,712</u>
Result					
Segment result excluding hedge contract profit and equity based compensation	3,929	-	(82)	(8,589)	(4,742)
Hedge contract profit	-	-	-	(5,621)	(5,621)
Equity-based compensation	-	-	-	6,530	6,530
Total segment result before income taxes	3,929	-	(82)	(7,680)	(3,833)
Income taxes (expense)/benefit	<u>(2,007)</u>	<u>-</u>	<u>-</u>	<u>(1,369)</u>	<u>(3,376)</u>
Total segment result	<u>1,922</u>	<u>-</u>	<u>(82)</u>	<u>(9,049)</u>	<u>(7,209)</u>
Reconciliation of segment loss after income taxes					
Depletion					(3,216)
Accretion					(131)
Write-down of mineral property					(1,171)
Loss for the year					<u>(11,727)</u>

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	<u>Greece</u>	<u>Romania</u>	<u>Turkey</u>	<u>Corporate</u>	<u>2008 Total</u>
Assets					
Production stage mineral properties	26,652	-	-	-	26,652
Development stage mineral properties	403,907	45,187	-	-	449,094
Exploration stage mineral properties	-	-	456	-	456
Property, plant and equipment	71,293	2,759	40	309	74,401
Segment assets	<u>501,852</u>	<u>47,946</u>	<u>496</u>	<u>309</u>	<u>550,603</u>
Income					
Sales to external customers					
Concentrate sales	44,812	-	-	-	44,812
Gold pyrite sales	15,232	-	-	-	15,232
Total segment income	<u>60,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,044</u>
Result					
Segment result excluding hedge contract profit and equity based compensation	(8,370)	-	(214)	2,082	(6,502)
Hedge contract profit	-	-	-	(4,918)	(4,918)
Equity-based compensation	-	-	-	2,900	2,900
Total segment result before income taxes	<u>(8,370)</u>	<u>-</u>	<u>(214)</u>	<u>64</u>	<u>(8,520)</u>
Income taxes (expense)/benefit	875	-	-	15,764	16,639
Total segment result	<u>(7,495)</u>	<u>-</u>	<u>(214)</u>	<u>15,828</u>	<u>8,119</u>
Reconciliation of segment profit after income taxes					
Depletion					(2,946)
Accretion					(133)
Write-down of mineral property					-
Profit for the year					<u>5,040</u>

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23. Pension plans and other post-retirement benefits

The Company's subsidiary, European Goldfields (Services) Limited, maintains a defined contribution pension plan for its employees. The defined contribution pension plan provides pension benefits based on accumulated employee and Company contributions. Company contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements. The cost of defined contribution benefits is expensed as earned by employees.

As at 31 December 2009 and 2008, the Company recognised the following costs:

	2009 \$	2008 \$
Defined contribution plans	641	261

24 (Loss)/Earnings per share

The calculation of the basic and diluted earnings per share attributable to holders of the Company's common shares is based as follows:

	2009 \$	2008 \$
(Loss)/Profit for the year	(11,783)	5,519
Effect of dilutive potential common shares	-	-
Diluted earnings	<u>(11,783)</u>	<u>5,519</u>
Weighted average number of common shares for the purpose of basic earnings per share	179,825	179,566
Incremental shares – Share options	-	1,657
Weighted average number of common shares for the purpose of diluted earnings per share	<u>179,825</u>	<u>181,223</u>

In 2008, the weighted average number of options excluded from the computation of diluted earnings per share because their effect was not dilutive, was 1,220.

25. Comparative figures

Certain prior year amounts have been reclassified from statements previously presented to conform to the presentation of 2009 Consolidated Financial Statements.

26. Post balance sheet event

Since 31 December 2009, the Company granted 550,000 (2008 – 584,779) restricted share units under the Company's Restricted Share Unit Plan and 1,600,000 (2008 – Nil) share options under the Company's share option plan.

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27. Recently issued accounting standards

Business Combination, Consolidated Financial Statements and Non Controlling Interest – In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements and 1602 – Non-Controlling Interests which replace CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

International Financial Reporting Standards – ("IFRS) - In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, and in April 2008, the AcSB issued for comment it's Omnibus Exposure Draft, Adopting IFRS in Canada. Early adoption may be permitted, however it will require exemptive relief on a case by case basis from the Canadian Securities Administrators.

The Company has begun assessing the adoption of IFRS and is in the process of completing its overall conversion plan. The plan assesses the possible benefits of early adoption, the key differences between IFRS and Canadian GAAP including disclosures as well as a timeline for implementation.