

Publication : Shares Magazine  
Date : 8 April 2010  
Client : European Goldfields

The Griller **BIG** interviews with the people who count

Red tape issues are finally being cut through as three major gold mines move closer to production

## European Goldfields' reason to celebrate

Dan Coatsworth

**M**etals producer **European Goldfields (EGU:AIM)** was for years treading water while it battled endless permitting delays. The fact that it had a producing mine was irrelevant: the company's future was pegged on three additional mine developments which were being held back by red tape issues.

Progress was finally achieved last October with part of the environmental approvals for the two Greek projects, Skouries and Olympias; and a key permit secured last month for Certej in Romania. It now hopes to get all outstanding permits by the year end. Granted an audience with a good handful of the group's management team invigorated by the latest achievements, I am hopeful for the real story behind the previous permitting delays and the company's new-found enthusiasm.

'I know there has been a lot of promising and maybe under-delivering for many years but two major door jams have been released over the past six months,' says Martyn Konig, still fresh into his new role as executive chairman. 'The biggest permit delay was an archaeological issue in Greece. The permitting process involved 50 constituent approvals, we were delayed by one which was the Ministry of Culture'. Executive vice president Mark Rachovides elaborates on the matter: 'There is an archaeological concern every time you put a spade in the ground in Greece. I even have an archaeological permit for my garden. You have to be patient with the authorities even though I'm sure we are not going to find the lost Temple of Artemis in Skouries,' he jokes.

It has been a similar situation in Romania where European Goldfields has been kept waiting for the last of 17 constituents to approve Certej as a gold project. Despite already having a mining licence, as Certej used to be run by the state as a lead/zinc operation, European Goldfields is currently prevented from storing or processing any ore.

I ask the management team if the Baia Mara disaster in 2000, where cyanide from a gold mine broke through a dam to pollute a nearby town killing thousands of

fish, was to blame for Certej's hold up as Romanians became nervous about mining and the environment? Konig immediately responds that this issue was not restricted to Romania, saying: 'Baia Mare had a major impact on global mining'. European Goldfields claims it is the first company in Romania to get a key environmental permit post-Baia Mare. It attributes the previous delays on Certej to the collapse of Romania's government in 2009, where it had to wait for ministers and civil servants to be appointed in

order to get the final constituent approval.

While there is certainly momentum in getting the necessary approval, the company is still not over the final permitting hurdle. I put it to Konig that Greece may have more pressing matters in trying to repair its economy than finalise permits for Skouries and Olympias. He retaliates by saying the two mines will provide a significant boost to employment and investment to the tune of \$500 million in the region. Rachovides adds: 'Without an upturn in economic activity, Greece is not going to get out of its problems. Investment has to be the greatest priority and in terms of investments projects in the country we come in the top six'.

Three days after the Greek state approved the preliminary environmental impact study for Skouries and Olympias, the company made the shock announcement that chief executive officer David Reading had been replaced after six years in the job. Had this decision been previously made with the provision that Reading would go once permitting progress gained speed? 'A change in management has been discussed for a while, yes,' admits Konig, who took the top job in October. So did the former banker and



Fresh: Martyn Konig, new executive chairman of metals producer European Goldfields

hedge fund boss Konig know at the time of being appointed non-executive director in October 2008 that it was a temporary post ahead of taking the bigger role? 'No,' he firmly states. 'The company needed to move on. It was a proper decision, whether it was me or not, that we move from the explorer/developer stage into the next phase with different skill sets looking at financial, corporate and technical requirements'.

While Reading was popular among the financial and mining community, in Konig's defence he does have the necessary skills to help a company that needs to conduct several fund raisings over the next year or two. Konig and chief financial officer Tim Morgan-Wynne seem relaxed about the task in hand. They tell me that \$190 million financing for Certej is well advanced with a group of banks already chosen to provide \$125 million project financing. European Goldfields will be entitled to a \$40 million grant and the balance will come from the company's \$113 million cash pile. The major financing requirement is Skouries where it needs \$300 million. 'This is a world-class deposit. It can repay even on 100% debt in a year,' says Konig. He reveals that banks are

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already working with them on Certej are also keen on Skouries.

Konig says a potential top-up source of funding may be locking in lead, zinc and potentially copper forward-sales agreements, although leaving the gold unhedged to benefit from any upside in the precious metal price. Such a financing agreement could include a contribution from Straton, the lead/zinc mine already in production but generally unloved by the market. 'No-one invests in European Goldfields for lead and zinc,' admits Konig. So will Straton be sold once the gold projects are in production? 'We have no reason to,' he replies. 'It is probably worth less than 3% of our net asset value but it has helped enormously with the permitting for Skouries and Olympias as it shows we are good from an environmental, social and corporate perspective'.

Although the board has deemed it more suitable for the company to be run by a banker than explorer – Reading was formerly general manager of exploration at FTSE 100 gold producer **Randgold Resources (RRS)** – there is some irony in European Goldfields announcing a major push on exploration. This year's \$15 million budget will be around six times higher than what it spent in 2009. Usually mining companies with significant development projects would normally sideline exploration work, so what is going on? 'Exploration had previously taken a back seat because we weren't going to get value from finding additional resources while there were permitting risks,' says Patrick Forward, vice president for projects and exploration. 'The other issue was in Greece where we felt running around with drill rigs was not the appropriate thing to do while trying to permit the big project'.

Forward reckons the market will now give European Goldfields appropriate reward for exploration progress, given the recent achievements in permitting. The priority target, Piavitsa, is close to European Goldfields' other assets in Greece (all development and exploration interests are in a 10-kilometre radius) and could be a vital source of ore to accelerate the Olympias redevelopment project by filling up spare capacity in the latter's processing plant. A two-kilometre strike length was previously explored at Piavitsa, albeit erratically.

Importantly, every hole hit mineralisation so it should be a fairly easy project to explore,' says Forward. He is also excited about two additional targets, Fisoka and Tsikara. 'These have fantastic potential to be a similar size to Skouries which itself is a high tonnage, low-grade project which starts open pit and goes underground. If we find more sources of gold nearby we can defer the underground development and this improves the overall economics'.

The company is also making progress with exploration in Turkey where it has a joint venture with **Ariana Resources (AAU:AIM)**. Despite both parties proving that the Ardala prospect is bigger than first thought and discovering a new belt of mineralisation close to the property, Konig does not seem keen on acquiring the £5.5 million market cap partner, saying European Goldfields is too focused on the near-term production assets to worry about any takeover opportunities.

'If we assume all permits for Greece and Romania will be awarded this year, which I'm sure they will be, we will move through a process of construction and into production during 2013,' comments Konig. 'We'd then aim to produce over 400,000 ounces of gold a year plus a lot of base metals'. This would represent a significant step up from the European Goldfields that investors have known in the past. The chairman is adamant that the foundations have now been laid for achieving the next growth phase and he is closely following certain companies to take guidance from their success. As a recent company to move from developer to producer, **Centamin Egypt (CEY)** is a particular role model and Konig wants to emulate its move from Aim to London's Main Market once gold production is underway. He also cites nickel producer **Talvivaara (TALV)** in wanting to copy the Finnish group's recent long-term deal to sell its zinc by-product production to the world's largest zinc producer Nyrstar for an immediate lump sum and agreed prices thereafter.

'We are looking for European Goldfields stock to re-rate,' concludes Konig. 'There are very few global reserves the size of ours entirely located in the EU. Although it may be difficult to get permits, once you are there it is a very stable environment in which to do business and you have great infrastructure. We are now on that road'.

**THE INVESTMENT CASE**

**European Goldfields (EGU:AIM) 443.8p** **+ BUY**

**Summary**

Should get the final permits to start three new mining projects this year and it has an exciting exploration portfolio. One major prospect in particular, Piavitsa, has been ignored by the market.

**Bull case**

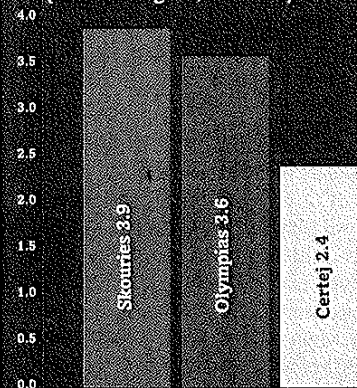
- Good permitting progress
- Significant growth pipeline
- Development funding imminent

**Bear case**

- High expectations on executive chairman
- Permitting delays
- Rally may prompt profit taking

**The story in numbers...**

**All that glitters – gold reserves (ounces of gold, millions)**



Source: European Goldfields

**Vital stats**

Market value: £762.8 million

Prospective PE 2010: n/a

Prospective yield: n/a

■ EUROPEAN GOLDFIELDS(LON)  
■ FTSE AIM SS BASIC RESOURCE £ - PRI

