

## Management's Discussion and Analysis

### For the period ended 30 June 2011

The following discussion and analysis, prepared as at 12 August 2011, is intended to assist in the understanding and assessment of the trends and significant changes in the results of operations and financial conditions of European Goldfields Limited (the "**Company**"). The following discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements for the periods ended 30 June 2011 and 2010 and accompanying notes (the "**Consolidated Financial Statements**").

Additional information relating to the Company, including the Company's Annual Information Form, is available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com). Except as otherwise noted, all dollar amounts in the following discussion and analysis and the Consolidated Financial Statements are stated in thousands of United States dollars.

#### Overview

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 London Stock Exchange plc and on the Toronto Stock Exchange ("**TSX**") under the symbol "**EGU**".

European Goldfields is a developer-producer with globally significant gold reserves located within the European Union. The Company generates cash flow from its 95% owned Stratoni operation, a high grade lead/zinc/silver mine in North-Eastern Greece. 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.

#### Cautionary statement on forward-looking information

Certain statements and information contained in this document, including any information as to the Company's future financial or operating performance and other statements that express management's expectations or estimates of future performance, constitute forward-looking information under provisions of Canadian provincial securities laws. When used in this document, the words "anticipate", "expect", "will", "intend", "estimate", "forecast", "planned" and similar expressions are intended to identify forward-looking statements or information. Forward-looking statements include, but are not limited to, the estimation of mineral reserves and mineral resources, the timing and amount of estimated future production, costs and timing of development of new deposits, permitting time lines and expectations regarding metal recovery rates. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The Company cautions the reader that such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual financial results, performance or achievements of the Company to be materially different from its estimated future results, performance or achievements expressed or implied by those forward-looking statements and the forward-looking statements are not guarantees of future performance. These risks, uncertainties and other factors include, but are not limited to: global economic conditions, share price volatility, future issuances of Company securities, the fact that the Company has never paid cash dividends, legislative, political, social or economic developments in the jurisdictions in which the Company carries on business; operating or technical difficulties in connection with exploration, mining or development activities; uncertainty of mineral reserves, mineral resources, grades and recovery estimates; uncertainty of future production; capital expenditures and other costs; financing and additional capital requirements; the risks normally involved in the exploration, development and mining business; the speculative nature of gold and base metals exploration and development, including the risks of diminishing quantities or grades of mineral reserves; changes in the price of gold, base metals or certain other commodities (such as fuel and electricity) and currencies; risks associated with the acquisition of mineral properties; currency fluctuations; the fact that the Company currently has negative cash flow and operating results; counterparty credit risk; the successful and timely permitting of the Company's Skouries, Olympias and Certej projects; title matters; environmental and other regulatory requirements; the risks associated with health, safety and community relations matters; tax residency; dependence on key management; competition in the mining industry; conflicts of interest and related party transactions; legal proceedings; the fact that substantially all of the assets of the Company are located outside Canada; labour laws and unions; the carrying value of property and the fact the Company currently sells all of its production to a single offtaker. For a more detailed discussion of such risks and material factors or assumptions underlying these forward-looking statements, see information under the heading "Risk Factors". The Company does not intend, and does not assume any obligation, to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required by law.

## Management's Discussion and Analysis

### For the period ended 30 June 2011

#### Results for operations

The Company's results of operations for the three-month period ended 30 June 2011 were comprised primarily of activities related to the results of operations of the Company's 95%-owned subsidiary Hellas Gold in Greece and the Company's exploration and development programmes in Romania and Turkey.

#### Greece

**Greek EIS approval** – The Greek Government announced after the quarter end that the Joint Ministerial Decision had been delivered thereby formally approving the Environmental Impact Study ("EIS") submitted by the Company's 95%-owned subsidiary, Hellas Gold SA, for the development of the Company's Greek assets. This completes the official approval process for the EIS.

**Skouries** – A comprehensive bidding document for the Skouries project construction is ready for issue to major contractors. This contract would cover the civil engineering aspects of the project and include the plant construction and site infrastructure such as power supply, internal and external access roads and the construction of the tailings starter embankment. With the assistance of our Greek partners, the recruitment process for key owner's team personnel is well advanced. On the ground, planned detailed geotechnical work is due to commence in Q3.

**Olympias** – Major progress has been made on the plant refurbishment including completing building repairs, a new plant roof, renewal of the motor control centre, installation of process mixing and holding tanks and rehabilitation of all access and internal roads. Orders have been placed for the apron feeder and the filter press, being the two longest lead items in the renovation of the Olympias concentrator plant, and the project is on schedule to produce gold concentrate from existing tailings in Q2 2012.

Refurbishment of the current mine access decline is also progressing with more than 50% completed. Proposals for the engineering studies that will define the detail of the remaining underground mine refurbishment are currently in preparation. This will help to ensure that underground production commences, as planned, directly after the processing of existing tailings is complete in 2015, as defined in the Company's phased development plan for the Olympias project.

#### Sale of Gold-Bearing Concentrates (100% basis)

	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3
<b>Sales</b>								
Gold concentrate (dmt)	Nil	Nil	Nil	Nil	Nil	Nil	34,182	21,734

**Stratoni operations** – The Company's 95% owned subsidiary Hellas Gold mined a total of 59,150 wet tonnes in Q2 2011 (Q2 2010 – 64,813) and completed 4 shipments for the period (2010 – 9). Hellas Gold's results from its operations at Stratoni for the eight most recently completed quarters are summarised in the following table:

	Operational results (100% basis)							
	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3
<b>Inventory (start of period)</b>								
Ore mined (wet tonnes)	3,826	24	9,074	16,392	14,089	1	8,097	2,293
Zinc concentrate (tonnes)	2,232	2,517	4,143	2,663	2,839	2,817	583	25
Lead/silver concentrate (tonnes)	1,387	1,740	2,841	902	1,105	824	857	2,090
<b>Production</b>								
Ore mined (wet tonnes)	59,150	50,282	53,474	54,093	64,813	63,294	57,247	57,235
Ore milled (tonnes)	58,049	44,873	60,356	59,938	60,663	47,701	63,345	50,167
- Average grade: Zinc (%)	9.52	9.43	10.00	9.28	8.91	9.90	8.64	9.10
Lead (%)	5.70	6.00	5.81	6.00	5.58	6.24	5.40	5.18
Silver (g/t)	146	142	152	157	145	159	140	133
Zinc concentrate (tonnes)	10,310	8,052	11,339	10,298	10,103	8,852	10,572	8,495
- Containing: Zinc (tonnes)	5,109	3,920	5,577	5,123	4,942	4,334	5,080	4,248
Lead concentrate (tonnes)	4,277	3,300	4,526	4,630	4,479	4,040	4,684	3,503
- Containing: Lead (tonnes)	3,055	2,317	3,238	3,307	3,092	2,727	3,143	2,376
Silver (oz)	224,837	171,048	245,511	249,717	233,760	203,914	236,621	177,650
<b>Sales</b>								
Zinc concentrate (tonnes)	5,584	8,337	12,965	8,818	10,279	8,830	8,338	7,937
- Containing payable: Zinc (tonnes)*	2,311	3,392	5,378	3,672	4,159	3,633	3,380	3,325
Lead concentrate (tonnes)	3,751	3,653	5,627	2,691	4,682	3,759	4,717	4,736
- Containing payable: Lead (tonnes)*	2,500	2,512	3,819	1,798	3,071	2,385	3,030	3,042
Silver (oz)*	184,299	188,304	290,961	135,361	232,212	178,184	227,661	228,574
Cash operating cost per tonne milled (\$)	167	183	155	153	141	151	173	165
Cash operating cost per tonne milled (€)	115	134	114	119	110	110	117	116
<b>Inventory (end of period)</b>								
Ore mined (wet tonnes)	3,006	3,826	24	9,074	16,392	14,089	1	8,097
Zinc concentrate (tonnes)	6,958	2,232	2,517	4,143	2,663	2,839	2,817	583
Lead/silver concentrate (tonnes)	1,913	1,387	1,740	2,841	902	1,105	824	857

\* Net of smelter payable deductions

**Production at Stratoni** – In Q2 2011, production from the underground mine was up on Q1 2011 as a result of revised planning, ameliorating the geotechnical issues experienced during the last quarter. There was a significant accrued stockpile ready for shipment at the end of the quarter due to the timing of shipments, the first of which was made in early Q3 2011.

## Romania

**Certej project** – During the quarter significant progress was made in the EIS approval process. Local public consultation was satisfactorily completed during the quarter in accordance with both Romanian and EU requirements. Final cross border consultation with both Serbia and Hungary is now underway and is expected to be completed in accordance with international agreements, by the early part of Q4. The EIS approval process is expected to conclude soon afterwards.

The Company's Certej project team is well established with a project manager already in place. Pre-qualification of equipment suppliers is complete and bid documents have been prepared. Bidding documents for the project construction have also been drawn up and pre-qualification of contractors is well advanced. Project management software has also been installed and training to allow its implementation is underway.

## Management's Discussion and Analysis

### For the period ended 30 June 2011

#### Group Exploration Update

**Piavitsa, Greece** – The Piavitsa massive sulphide gold-polymetallic target occurs within two kilometres of the Stratoni mine underground workings and is hosted by the same structure. An 8km strike length of electromagnetic conductors was identified by a geophysical survey and historic drilling along 2km of this has shown mineralisation very similar in style and tenor to that at Olympias. The remaining 6km of the anomaly has displayed anomalous gold in soils and resource definition drilling is planned, aiming at maiden resource estimation by Q1 2012.

**Fisoka, Greece** – Fisoka comprises three porphyry centres, the most northerly of which was drill tested in the past, a chalcocite blanket of copper mineralisation was defined but with no gold present. However, geophysical and geochemical surveys combined with detailed mapping indicate the un-tested central and southern porphyries carry gold as well as copper mineralisation. Drill testing of these previously unrecognised central and southern Fisoka porphyry targets is planned to define maiden resources in 2012.

**Tsikara, Greece** – The intrusives at Tsikara represent newly identified targets and the company has defined several plausible porphyry centres within the overall volcanic complex that underlies the area. Follow up mapping and litho-geological sampling has confirmed the presence of porphyry style veining and alteration with anomalous copper and gold values. Drilling will be aimed at defining maiden resources in 2012.

**Romania** – Work in 2009 and 2010 identified numerous porphyry and epithermal targets along the Certej volcanic belt and further work is planned pending acceptance of licence applications. In addition, drilling of satellites to the Certej deposit within existing licences continues with additional open-pit resources expected to be defined during 2012.

#### Corporate Activity

**Appointment of Chief Operating Officer** – The Company was pleased to announce the appointment of David Cather C.Eng, MIMMM as Senior Vice President and Chief Operating Officer.

Mr. Cather graduated from the Royal School of Mines, Imperial College London in 1981 with a first class degree in mining engineering. Over a career spanning more than 25 years, Mr. Cather has gained extensive senior level project development experience and management skills in both open pit and underground operations.

His early career with De Beers gave him extensive underground mining and mine development experience. His expertise and experience developed further during 10 years in a senior management role at Redland Aggregates Ltd, after which, as Development Director of Miller Mining, Mr. Cather spearheaded the development of a portfolio of open-cast coal mines. Mr. Cather spent the next 9 years with Anglo American where, as Technical Director of Anglo American's Industrial Minerals Division, he was responsible for Tarmac Group (construction materials in 13 countries), Cleveland Potash (fertiliser operations in the UK) and Copebras Brazil. Since 2006, Mr. Cather has acted as a retained mining consultant to Grafton Resources, a London based natural resources fund with major investments in gold projects in Russia, India and the Philippines, Brazilian iron ore and a Bulgarian water project.

**London Main Market Evaluation Initiated** – The Company has initiated an evaluation of a potential upgrade of the current AIM listing to the Main Market of the London Stock Exchange. In that regard, the Company announced the appointment of Goldman Sachs International to assist with this evaluation which includes a review of the Company's corporate structure with a view to facilitating better access to, and servicing of, the UK and international capital markets and a potential re-domiciliation of the Company. Lazard & Co., Limited are also providing financial advice in connection with this evaluation.

#### Summary of financial results

##### Stratoni operations

The Stratoni mine's financial results for the eight most recently completed quarters are summarised in the following table:

	Financial performance (100% basis)							
	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3
<i>(in thousands of US dollars)</i>								
Sales	11,109	13,531	18,217	9,204	12,017	11,134	13,656	11,500
EBITDA	3,755	4,233	5,921	1,766	2,290	3,018	2,601	1,315
Gross profit	2,847	2,793	3,763	522	736	1,595	1,196	(449)
Capital expenditure	141	336	483	1,417	1,336	287	2,053	596
Depreciation and depletion	908	1,440	2,158	1,244	1,554	1,423	1,405	1,764

Total quarterly revenues from concentrate sales decreased year on year, driven mainly by lower payable metal but strongly offset by higher realized prices: payable zinc decreased 44% and payable lead and silver decreased 19% and 21% respectively compared to the prior year quarter; realised prices for zinc were \$2,221 per tonne, up 8%, and for lead \$2,569 per tonne, up 41% compared to Q2 2010. Base metal prices had been trading in a relatively stable pattern in 2011, although the recent financial turmoil has created weakness in base metal prices since the end of Q2 2011. This has echoed the sharp sell off in base metals in Q2 2010, which had reversed by the end of the 2010 calendar year. Overall the lower payable metal outweighed higher realised prices, leading to a decrease of 8% in payable base metal revenues.

## Reconciliation of Straton revenues – Q2 2011

<i>(in thousands of US dollars unless stated otherwise)</i>	Zinc	Lead	Silver	Total
Payable metal	2,311t	2,500t	184,299oz	n/a
Realised price	\$2,221/t	\$2,569/t	\$8.41/oz	n/a
Payable metal revenue	5,132	6,423	1,550	13,105
TC/RCs	(1,143)	(851)	(147)	(2,141)
Transport recoveries/(charges)	-	-	-	-
Net revenue	3,989	5,572	1,403	10,964
Prior quarter revenue adjustments	230	(89)	4	145
Total revenue	4,219	5,483	1,407	11,109

## Reconciliation of Straton revenues – Q2 2010

<i>(in thousands of US dollars unless stated otherwise)</i>	Zinc	Lead	Silver	Total
Payable metal	4,159t	3,071t	232,212oz	n/a
Realised price	\$2,057/t	\$1,822/t	\$8.30/oz	n/a
Payable metal revenue	8,555	5,595	1,928	16,078
TC/RCs	(2,838)	(610)	(222)	(3,670)
Transport recoveries/(charges)	46	-	-	46
Net revenue	5,763	4,985	1,706	12,454
Prior quarter revenue adjustments	(289)	(79)	(69)	(437)
Total revenue	5,474	4,906	1,637	12,017

## Olympias project

Hellas Gold completed the final shipments of Olympias gold bearing concentrates from the surface concentrate stockpile in 2009 and therefore no sales were made in 2010 and Q2 2011. The amounts shown in 2010 reflect final pricing adjustments from certain historic shipments.

## Financial performance (100% basis)

<i>(in thousands of US dollars unless stated otherwise)</i>	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3
Sales	Nil	Nil	30	Nil	(48)	(699)	5,073	5,537
Gross profit	Nil	Nil	30	Nil	(48)	(699)	4,067	4,012
Depreciation and depletion	Nil	Nil	Nil	Nil	Nil	Nil	196	124

## Consolidated results

The Company's statements of profit and loss for the eight most recently completed quarters are summarised in the following table:

<i>(in thousands of US dollars unless stated otherwise)</i>	Financial performance							
	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Statement of profit and loss</b>								
Sales	11,109	13,531	18,247	9,204	11,969	10,435	18,729	17,037
Cost of sales	8,262	10,738	14,345	8,682	11,390	9,539	13,466	13,474
Gross profit	2,847	2,793	3,902	522	579	896	5,263	3,563
Interest income	55	60	144	65	35	62	(163)	147
Foreign exchange gain/(loss)	1,267	3,326	(1,460)	6,930	(10,354)	1,563	88	(501)
Hedge contract profit	-	-	0	183	394	-	373	1,030
Discounting of VAT and tax recoverable	7,790	-	0	-	-	-	-	-
Share of profit/(loss) in associate	(5)	(6)	(20)	(9)	39	-	(3)	(187)
Expenses	11,611	11,106	15,754	10,319	11,014	8,207	11,251	5,384
Profit/(loss) before income taxes	(15,237)	(4,933)	(13,188)	(2,628)	(20,321)	(5,686)	(5,693)	(1,332)
Income taxes	(141)	2,354	(1,272)	960	(445)	(1,048)	(991)	(1,847)
Profit/(loss) after income taxes	(15,378)	(2,579)	(14,460)	(1,668)	(20,766)	(6,734)	(6,684)	(3,179)
Non-controlling interest	37	9	31	141	341	(77)	(159)	56
Profit/(loss) for the period	(15,341)	(2,570)	(14,429)	(1,527)	(20,425)	(6,811)	(6,843)	(3,123)
Earnings/(loss) per share	(0.08)	(0.02)	(0.08)	(0.01)	(0.11)	(0.04)	(0.04)	(0.02)

## Management's Discussion and Analysis

### For the period ended 30 June 2011

The Company recorded a loss before taxes of \$20.17 million for the six month period ended 30 June 2011, compared to a loss before taxes of \$26.00 million for the same period of 2010. The Company recorded a net loss (after taxes and non-controlling interest) of \$17.91 million (\$0.10 loss per share) for the six month period ended 30 June 2011, compared to a net loss of \$27.24 million (\$0.15 loss per share) for the same period of 2010. For the six-month performance, improved base metal prices and higher foreign exchange gains, offset somewhat by higher expenses, resulted in higher levels of gross profits and lower losses pre- and post-tax.

The Company recorded a loss before taxes of \$15.24 million for the three-month period ended 30 June 2011, compared to a loss before taxes of \$20.32 million for the same period of 2010. The Company recorded a net loss (after taxes and non-controlling interest) of \$15.34 million (\$0.08 loss per share) for the three-month period ended 30 June 2011, compared to a net loss of \$20.43 million (\$0.11 loss per share) for the same period of 2010. For the three-month performance, improved base metal prices and higher foreign exchange gains, offset somewhat by higher expenses, resulted in higher levels of gross profits and lower losses pre- and post-tax.

In more detail, the following factors have contributed to the above:

- A stronger market for base metal prices was experienced in the six month period ended 30 June 2011 compared to the same period in the prior year. In the six month period ended 30 June 2011, zinc averaged \$2,344 per tonne and lead \$2,554 per tonne compared to \$2,182 per tonne and \$2,106 per tonne respectively for the same period in 2010. The Stratoni mine was operating at lower levels in the first half of 2011 than in the same period of 2010, with mine production decreasing 15%, and mill processing decreasing 5% respectively. Metal sales in the H1 2011 in light of the stockpile increase, yielded payable zinc of 5,703 tonnes, a 27% decrease over the same period in 2010, and payable lead of 5,012 tonnes, a decrease of 8%. Following these changes in realised prices and sales volumes, total base metal revenues increased by 6%, with revenues from payable zinc in H1 2011 decreasing 6% compared to H1 2010, but revenues from payable lead more than offsetting this with an increase of 24% over the same period. In addition, large levels of concentrate inventory were ready to ship at the end of the period.
- This stronger market for base metal prices was more accentuated in the three month period ended 30 June 2011. In the three month period ended 30 June 2011, zinc averaged \$2,271 per tonne and lead \$2,531 per tonne compared to \$2,052 per tonne and \$1,972 per tonne respectively for the same period in 2010. The Stratoni mine was operating at lower levels in the second quarter of 2011 than in the same period of 2010, with mine production decreasing 9%, and mill processing decreasing 4% respectively. Metal sales in the Q2 2011 in light of the stockpile increase, yielded payable zinc of 2,311 tonnes, a 44% decrease over the same period in 2010, and payable lead of 2,500 tonnes, a decrease of 19%. Following these changes in realised prices and sales volumes, revenues from payable zinc in Q2 2011 decreased 23% compared to Q2 2010, and revenues from payable lead increased 12% over the same period.
- Cost of sales of \$19.00 million in the first half of 2011 and \$8.26 million in Q2 2011, compared to \$20.93 million and \$11.39 million respectively for the same period of 2010 and included \$2.35 million in depreciation and depletion expenses in the first half of 2011 and \$0.91 million Q2 2011, compared to \$3.09 million for the same period of 2010 and \$1.66 million in Q2 2010. In H1 2011, Stratoni costs of production increased by \$2.13 million driven by higher Euro unit operating costs resulting from increased operating development and mill costs, concentrate transport costs were \$0.74 million higher, amortization and depreciation were \$0.63 million lower in H1 2011. The large build of concentrate inventory decreased costs of sales by \$2.68 million H1 2011 compared to H1 2010. For the quarter ended 30 June 2011 compared to the same period in 2010, the trends were: \$1.14 million increase in cost of production driven partly by higher Euro unit operating costs and a stronger Euro, \$0.47 million lower transport costs, \$0.64 million lower amortization and depreciation, and a higher transfer of cost to inventory of \$2.91 million quarter on quarter. A detailed reconciliation of cost of sales to cash unit production costs in Euros is included in the section Non IFRS Performance Measures below.
- As a result, the Company recorded a gross profit of \$5.64 million in the first half of 2011 and \$2.85 million Q2 2011 on revenues of \$24.64 million and \$11.11 million, compared to a gross profit of \$1.48 million in the first half of 2010 and \$0.58 million in Q2 2010 on revenues of \$22.40 and \$11.97 million, respectively for the same periods of 2010.
- In Q2 2011, in accordance with the Company's accounting policies it has been decided take a conservative position for accounting purposes and re-classify Hellas Gold's recoverable VAT and income taxes due from the Greek authorities, which has to-date been reported as a current asset in the Company's financial statements, as long term debtors on a net present value basis. This assumes that these amounts can be recovered in full by offsetting against future taxes payable upon production from the development projects at Olympias and Skouries. An adjustment of \$7.79 million has been made through the income statement to reflect this re-classification and discounting. This amount will be written back as the Company reaches production in Greece or when earlier repayment is received.
- The Company's corporate administrative and overhead expenses have increased from \$6.23 million in the first half of 2010 and \$4.24 million in Q2 2010 to \$7.00 million and \$4.21 million, respectively, for the same periods in 2011. This reflects the higher headcount resulting from the corporate build-out during 2010, along with professional fees relating to the financing processes and general corporate developments.

- The Company recorded a non-cash share-based compensation expense of \$10.19 million in the first half of 2011 and \$4.13 million in Q2 2011, compared to \$4.76 million and \$1.13 million, respectively, for the same periods of 2010. The increase relates mainly to option and RSU awards made under the Company's Long Term Incentive Plan, with specific share price and milestone objectives. Share-based compensation relates to options, restricted share units ("RSUs") and deferred phantom units ("DPUs"). Both RSUs and DPUs are valued by direct reference to the Company's share price, without the need for estimates to calculate the fair value of these instruments. RSUs are valued using the share price upon issuance, whilst DPUs are revalued to the Company's closing share price at the end of each reporting period. Options are valued using option valuation methodologies which require estimates to determine fair value. The Company continued a practice of recharging some of its equity-based compensation expense to its operating subsidiaries, a portion of which is capitalised by such subsidiaries.
- The Company recorded a foreign exchange gain of \$4.59 million in the first half of 2011 and a foreign exchange gain of \$1.27 million in Q2 2011, compared to a foreign exchange loss of \$8.79 million in the first half of 2010 and a foreign exchange loss of \$10.35 million in Q2 2010. These exchange differences arise as a result of changes in the US dollar values of Euro cash and cash equivalents held by the Company, as well as Hellas Gold's monetary assets or liabilities, and upon daily transactions in foreign currencies which take place during each quarter. Since Hellas Gold has large monetary asset positions, a strengthening US dollar tends to generate foreign exchange losses as the net Euro denominated assets are revalued downwards in US dollar terms; the reverse is true as US dollar weakens. In addition, the Company now holds approximately €23 million compared to €30 million in 2010, in line with its strategy of holding funds in the currency of its major capital projects.
- Hellas Gold's administrative and overhead expenses amounted to \$2.87 million in the first half of 2011 and \$1.98 million in Q2 2011 compared to \$5.38 million and \$4.11 million, respectively, for the same periods of 2010, primarily as a result of the receipt of insurance claims in Q1 2011 relating to costs incurred relating to damage due to an extreme rainfall event in 2010, which inflated the prior period cost.
- Hellas Gold incurred an expense of \$1.86 million in the first half of 2010 and \$0.88 million in Q2 2011, compared to \$2.03 million and \$1.14 million, respectively, for the same periods of 2010, for ongoing water pumping and treatment at its non-operating mines of Olympias and Madem Lakkos backfilling, in accordance with Hellas Gold's programme of environmental management.
- The Company recorded a income taxes charge of \$2.21 million in the first half of 2011 and a \$0.14 million credit in Q2 2011, compared to a credit of \$1.49 million and \$0.45 million, respectively for the same periods of 2010. The majority of the movement relates to the change in fair value uplift on mine properties as well as foreign exchange movements on the Euro denominated tax base of Hellas Gold's non monetary items.
- The Company recorded a credit of \$0.05 million in the first half of 2011 and a credit of \$0.04 million in Q2 2011 relating to the non-controlling shareholder's interest in Hellas Gold's profit (after tax), compared to a credit of \$0.26 and \$0.34, respectively for the same periods of 2010.

### Financial instruments

**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 and the counterparty were unable to honour its obligations under the hedge contract, the Company would be exposed to the value of the hedge, being 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 IAS 39.

**Lead and Zinc hedging contracts** – As at 30 June 2011, 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 July 2011 until 31 December 2011 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 30 June 2011, these contracts had a fair value of \$(259) (2010 – \$(970)), 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.

		<b>Hedging commitments</b>	
<b>Period July 2011 – December 2011</b>		<b>Lead</b>	<b>Zinc</b>
Total Volume	(tonnes)	3,000	3,900
Monthly Volume	(tonnes)	500	650
Floor Price	(\$/tonne)	2,000	2,000
Cap Price	(\$/tonne)	2,900	2,800

## Management's Discussion and Analysis

### For the period ended 30 June 2011

During the period ended 30 June 2011, the Company recorded income relating to its hedging program of \$Nil (2010 – \$Nil).

Given the current maturity profile of the hedge, market expectations and parameters, we expect that the fair value of the existing hedge contracts \$(259) will be released to net profit within the next 6 months.

#### Related parties

The Company's consolidated financial statements incorporate the accounts of the Company, European Goldfields Limited and its subsidiary undertakings as disclosed in note 3 of the interim financial statements for the period ending 30 June 2011. The following are also considered related parties of the Company.

#### Greek Nurseries SA

The Company's investment in Greek Nurseries SA is held through Hellas Gold SA who subscribed for 50% of the share capital.

Hellas Gold SA holds two out of the five Board positions and is not involved in the operating and management decision making process of Greek Nurseries SA. The investment is therefore accounted for as an associate, and Greek Nurseries SA is considered a related party of the consolidated Company.

#### Ellaktor SA

Ellaktor SA ("Ellaktor"), owns 19.3% of the Company's issued share capital. Aktor SA ("Aktor") Greece's largest construction Company and a 100% subsidiary of Ellaktor owns 5% of Hellas Gold SA, the Company's 95% owned subsidiary.

Ellaktor is deemed a related party and contracts management, technical and engineering services to Hellas Gold SA through its subsidiary undertakings including Aktor.

These costs have been recognised as costs of sales or capitalised depending on the nature of services rendered. 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 (2010 – 30 days).

#### Transactions with related parties

For the three-month period ended 30 June 2011 and 2010 the following transactions were entered into with related parties and the following amounts were outstanding as at 30 June 2011 and 31 December 2010.

#### Greek Nurseries SA

	30 June 2011 US\$000	31 December 2010 US\$000
Amounts receivable	-	28
Amounts payable	(2)	-
	(2)	28

In the six month period ended 30 June 2011 the value of services provided to the Company by Greek Nurseries SA was \$1 (2010 Nil) and by the Company to Greek Nurseries SA was Nil (2010 – Nil). In the three month period ended 30 June 2011 the value of services provided to the Company by Greek Nurseries SA was \$1 (2010 Nil) and by the Company to Greek Nurseries SA was Nil (2010 – Nil).

#### Ellaktor SA

	3 months ended 30 June		6 months ended 30 June	
	2011 US\$000	2010 US\$000	2011 US\$000	2010 US\$000
Services received:				
Exploration and evaluation services	-	20	-	94
Mining services	7,777	9,142	15,686	17,157
Other services	70	22	107	58
	7,847	9,184	15,793	17,309

	30 June 2011 US\$000	31 December 2010 US\$000
Amounts receivable	-	-
Amounts payable	(8,009)	(3,883)
	(8,009)	(3,883)

## Liquidity and capital resources

The Company's balance sheet and cash flows for the eight most recently completed quarters are summarised in the following table:

	2011	2011	2010	2010	2010	2010	2009	2009
<i>(in thousands of US dollars unless stated otherwise)</i>	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance sheet (end of period)</b>								
Cash	38,760	47,534	57,122	82,768	84,978	101,836	113,642	124,112
Working capital	31,132	66,583	75,887	97,359	102,320	125,347	146,799	146,158
Total assets	505,617	512,739	507,293	522,745	510,721	525,405	744,100	749,870
Non current liabilities	103,471	102,876	104,549	98,846	98,501	99,292	147,463	153,882
<b>Statement of cash flows</b>								
Cash flows from operating activities	(3,438)	(1,971)	3,556	(945)	1,338	(8,856)	(5,214)	2,865
Investing activities	(6,338)	(11,237)	(27,961)	(7,329)	(7,737)	(4,251)	(6,851)	(22,793)
- Property, plant and equipment	(1,355)	(12,162)	(24,839)	(4,546)	(65)	(731)	(4,411)	(20,656)
- Exploration and evaluation and mine development cost	(4,983)	925	(3,122)	(2,783)	(7,672)	(3,520)	(2,440)	(2,137)
Financing activities	-	-	-	199	113	-	1,694	-
Effect of foreign exchange on cash	1,002	3,620	(1,241)	5,865	(10,572)	1,301	(99)	1,312
Total movement in cash	(8,774)	(9,588)	(25,646)	(2,210)	(16,858)	(11,806)	(10,470)	(18,616)

As at 30 June 2011, the Company had cash and cash equivalents of \$38.76 million, compared to \$57.12 million as at 31 December 2010, and working capital of \$57.33 million, compared to \$79.64 million as at 31 December 2010. The Company has sufficient capital for its needs until all the permits to construct its new mines are received, at which point additional capital will be required. The Company remains confident that the bank debt and capital markets have sufficient liquidity to provide any additional capital it may require to bring its project portfolio into production. In this regard, the Company has progressed a financing strategy which has largely focused on bank debt to provide development capital for its projects. The Company does not currently intend to pursue any capital markets financing however, until market conditions normalise. So far, a total of \$435 million of bank debt has been arranged by the Company, including a \$135 million project finance facility for its Certej project in Romania, which has underwriting commitments from a group of banks, subject to acceptable legal documentation and customary conditions precedent; and a group of banks has been appointed to arrange a \$300 million debt facility for its projects in Greece which is subject to technical, legal and environmental due diligence. The company has no off-balance sheet transactions.

The decrease in cash and cash equivalents as at 30 June 2011, compared to the balances as at 31 December 2010, resulted primarily from the purchase of land for \$9.02 million, capital expenditure in Greece totalling \$4.48 million, changes in operating cash flow before net changes in other working capital of \$4.32 million, exploration and evaluation and mine development costs in Romania of \$2.40 million, exploration and evaluation and mine development costs in Greece of \$1.06 million, exploration and evaluation and mine development costs in Turkey totalling \$0.60 million. The impact of these outflows was partially offset by the positive effect of foreign currency translation on cash of \$3.65 million.

The following table sets forth the Company's contractual obligations including payments due for each of the next five years and thereafter:

<i>(in thousands of US dollars unless stated otherwise)</i>	Contractual obligations				
	Payments due by period				
	Total	Less than 1 year	2 – 3 years	4 – 5 years	After 5 years
Operating lease (London office)	1,568	448	896	224	-
Operating lease (Athens office)	812	148	295	295	74
Operating lease (Certej land)	3,241	84	503	335	2,319
Outotec OT – Processing Plant	495	495	-	-	-
Total contractual obligations	6,116	1,175	1,694	854	2,393

The Company's contractual obligation with Outotec relates to the contract to supply the large technology services for its Skouries project. Under this agreement, Outotec will oversee the installation of the key equipment items in the Skouries concentrator plant, and provide process guarantees which cover both plant throughput and recovery rates.

The Company expects to spend a total of \$32 million in capital expenditures to fund the development of its project portfolio. This amount comprises \$2 million at its existing operation at Stratoni to upgrade the mill and mining equipment, \$10 million at Olympias to refurbish the mine and process plant, and \$5 million at Skouries as the Company expects to finalise engineering studies and conclude contract negotiations in preparation for construction activities. At Certej, the Company expects to spend \$15 million to finalise engineering studies in preparation for construction activities. In addition to its capital expenditure programme, the Company expects to spend \$12 million in exploration over the wider licence areas in Greece, Romania and Turkey, \$11 million on Hellas Gold administrative and overhead and water treatment expenses, financing costs of \$16 million and \$18 million on corporate administrative and overhead expenses. The Company expects to fund all costs outside the major development capital from existing cash balances and operating cash flow generated from its Hellas Gold operations.

## Management's Discussion and Analysis

### For the period ended 30 June 2011

#### Outstanding share data

The following represents all equity shares outstanding and the numbers of common shares into which all securities are convertible, exercisable or exchangeable:

	Number of shares
Common shares:	183,840,513
Common share options:	6,445,331
Restricted share units:	1,961,164
Less: issued to JOE plan	(500,000)
<b>Common shares (fully-diluted):</b>	<b>191,747,008</b>
Preferred shares:	-

#### Non-IFRS performance measures

The Company uses certain performance measures in its analysis. Some of these performance measures have no meaning within IFRS and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Cash operating cost per tonne milled is a Non-IFRS measure which the Company uses as a key performance indicator, which reflects the fact that it is a key performance measure that Stratoni mine management uses to monitor operating performance. The Stratoni ore body produces three saleable products, being zinc, lead and silver. Using a measure which focuses on actual cost of the production process rather than a measurement of cost per product eliminates distortions resulting from grade mined or realised metal prices, and provides a real indication of cost management compared to tonnage processed. Management uses these statistics to assess how well the Company's producing mine is performing compared to plan and to assess overall efficiency and effectiveness of the mining operation.

The Company provides this cash cost information as it is a key performance indicator required by users of the Company's financial information in order to assess the Company's profit potential and performance relative to its peers. The cash cost figure represents the total of all cash costs directly attributable to the related mining and processing operations without the deduction of any credits in respect of by-product sales. Cash cost is not a IFRS measure and, although it is calculated according to accepted industry practice, the Company's disclosed cash costs may not be directly comparable to other base metal producers. Cash operating cost per tonne milled is a measure denominated in Euros, and therefore, when stated in US dollars, will be affected by changes in the Euro – US dollar exchange rate.

The following table reconciles cash operating cost per tonne to cost of sales as disclosed in our income statement for the most recent 8 quarters:

	Reconciliation of cost of sales							
	2011	2011	2010	2010	2010	2009	2009	
<i>(in thousands of US dollars unless stated otherwise)</i>	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	\$	\$	\$	\$	\$	\$	\$	\$
Milled production (dmt)	58,049	44,873	60,356	59,938	60,663	47,701	63,345	50,167
Cash operating cost per tonne milled (€)	115	134	114	119	110	110	117	116
Cash operating cost per tonne milled (\$)	167	183	155	153	141	151	173	165
Cash cost of production	9,686	8,212	9,347	9,181	8,553	7,221	10,948	8,288
Movement in concentrate inventory	(2,745)	113	1,845	(2,692)	157	(109)	(916)	1,080
Cash cost of sales – Stratoni	6,941	8,325	11,192	6,489	8,710	7,112	10,032	9,368
Amortisation and depletion	908	1,440	2,049	1,244	1,663	1,423	1,601	1,888
Concentrate transport costs	661	725	1,104	840	1,126	1,004	1,833	2,218
Inventory write-down / adjustments	(248)	248	-	109	(109)	-	-	-
Cost of sales	8,262	10,738	14,345	8,682	11,390	9,539	13,466	13,474

Earnings before interest, tax, depreciation and amortisation ("EBITDA") is a Non-IFRS measure which the Company uses as an indicator of cash generation. For each operation, it is calculated as gross profit adjusted for all depreciation, depletion and amortisation charges as presented under IFRS.

### Critical accounting estimates

**Estimates, risks and uncertainties** – The preparation of financial statements in conformity with IFRS 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 costs in relation to mine properties and exploration and evaluation, decommissioning obligations, share-based compensation, current deferred tax and VAT receivable. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

**Ore reserves and depletion of mine properties** – In accordance with the Company's accounting policy, once production starts mine properties are classified as producing mines, which are stated at cost less accumulated depletion and impairment. Producing mines are depreciated on a unit of production basis over the economically recoverable reserves of the mine concerned. A total of \$819 for the six month period ended 30 June 2011 (2010 - \$936) and \$282 for the three month period ended 30 June 2011 (2010 - \$459) was charged to the income statement in relation to depletion of mine properties, which were subject to these estimates. The estimation of recoverable reserves is based on professional evaluations using accepted international standards for the assessment of mineral reserves. The assessment involves the study of geological, geophysical and economic data and relies on a number of financial and technical assumptions. The estimate of reserves may be subject to change based on new information gained subsequent to the initial assessment, which may include additional information available from continuing exploration, results from the reconciliation of actual mining and plant production data against the original reserve estimates, or the impact of economic factors such as changes in metal prices, exchange rates or the cost of components of production. If actual reserves prove to be significantly different to current estimates, a material change to amounts charged to earnings could occur. At 30 June 2011 a total of \$288,128 (31 December 2010 - \$282,285) of mine properties and reserves and exploration and evaluation assets was stated on the balance sheet that are subject to these estimates now and in the future.

**Decommissioning liability** – The Company records a mine rehabilitation provision ("**decommissioning liability**") at fair value when legally incurred with the corresponding increase to the mineral property depreciated over the life of the mine. Management assesses the calculation of the mine rehabilitation provision annually, including the underlying assumptions and judgments made.

The liability is adjusted over time to reflect an accretion element. In accordance with IFRS the provision is discounted using a discount rate that reflects risks specific to the liability, with any change in the discount rate treated as a change in accounting estimate. Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the rehabilitation liability and asset if the initial estimate was recognized as part of an asset measured in accordance with IAS 16.

Any significant change to management's previous assumptions and to the cost of rehabilitation activities or the market based discount rate may result in future actual expenditure differing from the amounts currently provided. These changes or a change to the market based discount rate may result in a material change to amounts charged to earnings. At each reporting date the provision represents management's best estimate of the present value of the future rehabilitation costs required.

As at 30 June 2011, the Company recorded a decommissioning liability relating to its Stratoni property in Greece amounting to \$6,789 (31 December 2010 - \$6,585) subject to these estimates. A total of \$219 for the six month period to 30 June 2011 (2010 - \$215) was charged to the income statement in relation to the decommissioning liability and \$110 for the three month period ended 30 June 2011 (2010 - \$103), which were subject to these estimates. A significant change to either the estimated future costs or to reserves could result in a material change to amounts charged to earnings.

**Share based compensation** – The Company operates a share option scheme (Share Incentive Plan), an equity participation plan ('RSU') and a deferred phantom plan ('DPU'). Equity and cash based compensation granted under these plans is accounted for using the fair value method of accounting. Under this method the cost of equity-based compensation is estimated at fair value at the grant date and recognised in the income statement as an expense, or capitalised to exploration and evaluation assets and mine properties when the compensation can be attributed to those assets.

For cash settled awards, the cost of each unit is measured initially at fair value and expensed over the period until the vesting date. The associated liability is revalued to fair value at each reporting date with movements expensed in the period.

A total of \$10,194 for the six month period to 30 June 2011 (2010 - \$4,763) and \$4,132 for the three month period ended 30 June 2011 (2010 - \$1,128) was charged to the income statement in relation to share based compensation, which were subject to these estimates.

## Management's Discussion and Analysis

### For the period ended 30 June 2011

**Current and deferred tax** – Tax regimes in certain jurisdictions can be subject to differing interpretations and are often subject to legislative change and changes in administrative interpretation in those jurisdictions. The interpretation by the Company and its subsidiary undertakings of relevant tax law as applied to their transactions and activities may not coincide with that of the relevant tax authorities. As a result, transactions may be challenged by tax authorities and may be assessed to additional tax or additional transactions taxes (for example stamp duty or VAT), which, in each case, could result in significant additional taxes, penalties and interest. These could have a material adverse impact on the Company's business, financial position and performance. A total credit of \$2,212 for the six month period to 30 June 2011 (2010 – charge of \$1,493) was recognized in the income statement and for the three month period ended 30 June 2011 a total charge of \$141 (2010 – charge of \$445) was recognized in the income statement which were subject to these estimates.

**VAT receivable** – Hellas Gold SA has a total of \$31 million in recoverable VAT and income taxes due from the Greek authorities, which has to-date been reported as a current asset in the Company's financial statements. In accordance with the Company's accounting policies, it has been decided to take a conservative position for accounting purposes and re-classify these amounts as long term debtors on a net present value basis, given that these amounts can be recovered in full by offsetting against future taxes payable upon production from the development projects at Olympias and Skouries. An adjustment of \$7.8 million has been made through the income statement to reflect this re-classification and discounting. This amount will be written back as the Company reaches production in Greece or when earlier repayment is received.

**Long lived assets** – All long lived assets held and used by the Company are reviewed for possible impairment at least annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If changes in circumstances indicate that the carrying value of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the continued use of the asset and its disposition must be estimated. An asset is considered to be impaired where its recoverable amount (being the higher of the asset's fair value less costs to sell and its value in use) is less than its current carrying amount. Under IFRS a significant adverse change during the period or anticipated to take place in the near future in the market in which the Company operates or in the market to which an asset is dedicated can be considered an indication of possible impairment. An example of such a change would be a fall in metal prices. In such circumstances management use cash flow forecasts to establish whether actual impairment has occurred. Estimates are based on future expectations and a number of assumptions and judgments made by management. Current metal prices do not suggest that there has impairment of any of the Company's non-current assets, although if such an impairment were to occur, it could result in a material charge to earnings.

#### Transition to International Financial Reporting Standards ("IFRS")

The Company has transitioned to IFRS for its financial statements commencing 1 January 2011, and these interim financials for the quarter ended 30 June 2011 represent part of the Company's first annual reporting period under IFRS. The financial statements include opening balance sheet and equity reconciliations for the quarter as well as reconciliations as at the 1 January 2010 transition date and as at 31 December 2010.

#### Exemptions applied under IFRS

The Company has elected to take two IFRS 1 First-time Adoption of International Financial Reporting Standards exemptions, which have a material impact on the presentation of its financial statements as set out below. Under IFRS 1 first time adopters of IFRS have to make certain elections on the application of IFRS, including the availability of certain exemptions.

#### Business Combinations

The first exemption allows the Company to choose an effective date from which they adopt IFRS 3 (Revised) *Business Combinations* (IFRS 3R). When a Company adopts IFRS 3R it must also adopt IAS 27 (Revised) *Consolidated and Separate Financial Statements* (IAS 27R).

#### Foreign Currency Translation

The second exemption relates to a transitional provision under IAS 21 *The Effects of Changes in Foreign Exchange Rates*, which allows the Company to deem the cumulative translation reserve to be zero at the date of transition.

**Impact of IFRS adoption**

The following table reconciles the impact of the transition to IFRS on the Company's 31 December 2010 balance sheet.

	Canadian GAAP US\$ '000	Effect of transition to IFRSs US\$ '000	IFRSs US\$ '000
<b>Assets</b>			
<b>Non-current assets</b>			
Mine properties and reserves	488,811	(217,157)	271,654
Other property, plant and equipment	126,341	-	126,341
Exploration and evaluation assets	3,306	7,325	10,631
Investment in associate	743	-	743
Available for sale financial asset	1,975	-	1,975
Deferred tax asset	1,608	(1,608)	-
	622,784	(211,440)	411,344
<b>Current assets</b>			
Cash and cash equivalents	57,122	-	57,122
Trade and other receivables	29,506	-	29,506
Inventories	5,733	(80)	5,653
Current taxation	3,668	-	3,668
	96,029	(80)	95,949
<b>Total assets</b>	<b>718,813</b>	<b>(211,520)</b>	<b>507,293</b>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Attributable to equity holders of the Company			
Share capital	556,771	26,103	582,874
Contributed surplus	16,662	-	16,662
Other reserves	33,209	(36,818)	(3,609)
Deficit	(56,635)	(155,436)	(212,071)
	550,007	(166,151)	383,856
Non-controlling interest	2,494	-	2,494
	552,501	(166,151)	386,350
<b>Non-current liabilities</b>			
Deferred tax liabilities	90,372	(44,759)	45,613
Provisions	13,752	(610)	13,142
Deferred revenue	45,794	-	45,794
	149,918	(45,369)	104,549
<b>Current liabilities</b>			
Trade and other payables	11,557	-	11,557
Deferred revenue	3,867	-	3,867
Derivative financial liability	970	-	970
	16,394	-	16,394
<b>Total liabilities</b>	<b>166,312</b>	<b>(45,369)</b>	<b>120,943</b>
<b>Total liabilities &amp; shareholders equity</b>	<b>718,813</b>	<b>(211,520)</b>	<b>507,293</b>

## Management's Discussion and Analysis

### For the period ended 30 June 2011

#### Business Combinations

The Company has taken the IFRS 1 Business Combinations exemption, which allows them to choose an effective date from which to adopt IFRS 3 (Revised) Business Combinations (IFRS 3R). IAS 27 (Revised) Consolidated and Separate Financial Statements (IAS 27R) must also be adopted from that date. The Company has chosen to apply IFRS respectively to all business combinations that occurred on or after 01 June 2007.

The acquisition of a further 30% stake in Hellas Gold on 29 June 2007 has therefore been accounted for under IFRSs. Under CGAAP this was considered a business combination, with the excess of the fair value of the non-controlling interest acquired recognised as additional mine properties and reserves in the balance sheet, whereas under IFRS the transaction is an equity transaction with the Company's controlling and non-controlling interests adjusted to reflect changes in its relative interests in Hellas Gold. This resulted in a reduction to the carrying value of the mine properties and reserves (IFRS 3R adjustment), with cumulative translation differences that were capitalised to the mine properties and reserves under CGAAP written back and depletion that was recognised on the additional mine properties and reserves added back to the date of transition. The reduction in the value of mine properties and reserves on transition resulted in a corresponding decrease in the deferred tax liability relating to those assets. In the year to 31 December 2010 further depletion relating to the additional mine properties and reserves was also added back against either cost of sales or inventory depending on its previous allocation under CGAAP.

The following table reconciles all movements in mine properties and reserves on conversion to IFRS and the impact on the 31 December 2010 balance sheet.

<b>Mine properties and reserves 31 December 2010 Canadian GAAP:</b>	488,811
<b>Transition adjustments:</b>	
IFRS 3R adjustment	(198,518)
Cumulative translation differences	(15,524)
Add back of depletion	3,941
Adjustment to decommissioning liability	(657)
Reclassification as exploration and evaluation assets	(6,189)
<b>Total transition adjustments at 1 January 2010</b>	<b>(216,947)</b>
<b>IFRS adjustments – year ended 31 December 2010:</b>	
Add back of depletion 1 January 2010 to 31 December 2010 (inventory)	80
Add back of depletion 1 January 2010 to 31 December 2010 (cost of sales)	1,083
Adjustment to decommissioning liability	(237)
Reclassification as exploration and evaluation assets	(1,136)
<b>Mine properties and reserves 31 December 2010 IFRS</b>	<b>271,654</b>

In addition, shares issued as consideration in a business combination under CGAAP were valued using the average share price for a period prior to and subsequent to the announcement of the transaction, whereas under IFRS, shares are valued at their acquisition date fair value. This resulted in an increase of \$26,103 to share capital on transition.

#### Foreign Currency Translation

The Company has taken the IFRS 1 exemption relating to cumulative translation differences, which allows them to deem the cumulative translation reserve to be zero at the date of transition. In addition to the write back of \$15,524 of cumulative translation differences on the additional mineral property, the transfer of remaining cumulative translation differences to deficit reduces other components of equity by \$21,294 at transition and the Company's deficit by the same amount at 1 January 2010, the Company's date of transition to IFRS.

#### Income taxes

Under CGAAP tax bases were translated into US\$ using historical exchange rates. In accordance with IAS 12 income tax bases are translated using exchange rates ruling at each reporting date.

There is no deferred tax asset disclosed under IFRS since deferred tax assets are offset against the deferred tax liability where the relevant entity has a legally enforceable right to set off current assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity, or different taxable entities that intend either to settle current tax liabilities and assets on a net basis.

### Exploration and evaluation assets

Under Canadian GAAP (CGAAP) the Company recognised mineral properties at the exploration stage, development stage and production stage as deferred exploration and development costs. Under IFRS a distinction is made between exploration and evaluation assets, accounted for under IFRS 6 Exploration and Evaluation of Mineral Resources, and mine properties – including mine development assets and producing mines – which are accounted for in accordance with IAS 16 Property, Plant and Equipment. This results in a reclassification of \$7,325 from mine properties and reserves to exploration and evaluation assets at 31 December 2010.

### Decommissioning liability

Under CGAAP a decommissioning provision was set at inception and could only be changed if the provision was increased, with only the increased portion discounted at the revised rate. Under IFRS the entire provision is discounted using a rate specific to the liability and if the rate changes the entire provision is discounted using that rate. This results in a decrease of \$610 in the value of the decommissioning provision at 31 December 2010.

### Significant changes in accounting policies

#### Standards issued but not yet effective

The following new accounting standards and interpretations have been published but are not yet mandatory for the reporting period. These standard are currently being assessed in terms of impact of the Company's financial statements.

#### Financial Instruments

IFRS 7 – Disclosures, effective for accounting periods commencing on or after 1 July 2011. The amendments require improved disclosure in relation to transferred financial assets.

IFRS 9 – Classification and measurement, effective for accounting periods commencing on or after 1 January 2013. This standard will be a new standard for the financial reporting of financial instruments that is more principles based and less complex than IAS 39. This project is set out over 3 phases and will address hedge accounting and impairment of financial assets.

#### Income Taxes

IAS 12 – Recovering of Underlying Assets, effective for accounting periods commencing on or after 1 January 2012. This amendment provides guidance in determining the recovery of investment properties with regards to the deferred tax.

### Risks and uncertainties

This section addresses the existing and future material risks to the Company's business. The risks below are not the only ones that the Company will face. Some risks are not yet known and some that are not currently deemed material could later turn out to be material. All of these risks may materially affect the Company, its income, profits, earnings, assets and operations and the market price of its securities.

**Current Global Conditions** – Global financial conditions have been subject to increased volatility in recent years and access to public and private financing has been negatively impacted during this time. If such conditions persist or worsen, they may negatively impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. There may also be a negative impact on the Company's ability to attain funding through strategic partnerships or joint venture arrangements which may negatively impact the timeline for commencement of commercial production. Additionally, global economic conditions may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If these challenging market conditions and volatility persist or worsen, the Company's business, results of operations and financial condition could be adversely impacted and the value and the price of the Company's Common Shares could be adversely affected.

**Market Price Volatility** – The trading price of the Common Shares has been and may continue to be subject to large fluctuations. The trading price of the Common Shares may increase or decrease in response to a number of events and factors, some of which are directly related to the Company's success and are therefore not within the Company's control. Such events and factors include: the price of gold and other metals and minerals, the Company's operating performance and the performance of competitors and other similar companies, the public's reaction to the Company's press releases, other public announcements and the Company's filings with the various securities regulatory authorities, changes in earnings estimates or recommendations by research analysts who track the Common Shares or the shares of other companies in the mineral resource sector, changes in general economic conditions, the number of the Common Shares to be publicly traded after an offering, the breadth of the public market for the Common Shares, the arrival or departure of key personnel, acquisitions, strategic alliances or joint ventures involving the Company or its competitors, developments that affect the market for all mineral resource sector shares, and the attractiveness of alternative investments.

Ownership of the Common Shares is currently concentrated and sales of substantial amounts of Common Shares in the public market by the Company's shareholders, or the perception that such sales might occur, could result in a material adverse effect on the market price of the Common Shares and could impair the Company's ability to raise capital through the sale of additional equity or related securities.

## Management's Discussion and Analysis

### For the period ended 30 June 2011

The effect of these and other factors on the market price of the Common Shares on the exchanges in which the Company trades has historically made the Company's share price volatile and suggests that the Company's share price will continue to be volatile in the future. A decline in the market prices of the Company's securities could also impair the Company's ability to raise additional capital, whether in the form of equity or debt or through other financing arrangements.

In addition, following periods of volatility in the market price of a company's securities, shareholders have often instituted class action securities litigation against those companies. Such litigation, if instituted against the Company, could result in substantial costs and diversion of management attention and resources and also result in significant costs being incurred by or on behalf of the Company, any of which could significantly harm the Company's business, results of operations, financial condition and reputation.

**Dilution** – The Company may require additional monies to fund development and exploration programs and potential acquisitions. The Company cannot predict the size of future issuances of Common Shares or the issuance of debt instruments or other securities convertible into shares or the effect, if any, that future issuances and sales of the Company's securities will have on the market price of the Common Shares. If it raises additional funding by issuing additional equity securities, such financing may substantially dilute the interests of existing shareholders. Sales of substantial amounts of Common Shares, or the availability of such Common Shares for sale, could adversely affect the prevailing market prices for the Company's securities.

**No Dividends** – The Company has never paid cash dividends on the Common Shares. It currently intends to retain future earnings, if any, to fund the development and growth of its business, and may not pay any cash dividends on the Common Shares for the foreseeable future. Furthermore, the Company may in the future become subject to contractual restrictions on, or prohibitions against, the payment of dividends. As a result, investors will have to rely on capital appreciation, if any, to earn a return on their investment in Common Shares in the foreseeable future. The payment of future dividends, if any, will be reviewed periodically by the Company's board of directors and will depend upon, among other things, conditions then existing including earnings, financial condition and capital requirements, restrictions in financing agreements, business opportunities and conditions and such other factors deemed by the board of directors to be relevant at the time.

**Foreign Country Risk** – The bulk of the Company's mineral reserves are located in Greece and all of its historic revenues have been derived from its current operations in Greece. The Company has been awarded its key environmental permit for its major development projects in Greece and also has other development and exploration operations in Romania and Turkey. Consequently, if there were any change in the economic, legal or political framework in Greece, or other circumstances arising, which materially reduce or suspend the Company's existing operations, the Company's business, results of operations and financial condition will be materially negatively affected.

In 2010, the Greek economy experienced a severe downturn and in May 2010, the Greek government agreed to a stabilisation program, jointly supported by the International Monetary Fund, the European Central Bank and the European Union. As part of this stabilisation program, the Greek government committed to implement austerity measures to decrease expenses and increase revenues. The economic situation in Greece deteriorated again in 2011, and the ruling PASOK party implemented a further round of austerity measures along with a privatisation programme to raise revenues. As a result, the EU, ECB and IMF have jointly agreed to extend further credit packages to the Greek Government to stabilise economic activity in Greece. It is not yet known the extent to which the stabilisation program's fiscal targets will be met and the immediate impact of the austerity measures on economic, political or labour activity in Greece. Whilst the Company believes the risk of Greece defaulting on its debt to be remote and although the occurrence of a default may not directly impact the Company's assets or operations in Greece, this is an unusual position for a Eurozone state member. It is therefore possible that events not known or expected by the Company may occur and negatively impact the Company and its business, results of operations and financial condition.

Any changes in regulations in Greece, Romania or Turkey, or any political changes, are beyond the Company's control and may adversely affect its business, results of operations and financial condition. Development and exploration of any one or more of the Company's mineral properties may be affected in varying degrees by government regulations or policies with respect to restrictions on future exploitation and production, labour, environmental protection, price controls, royalties, export controls, foreign exchange controls, income taxes, expropriation of property, environmental legislation and mine and/or site safety. Lastly, there are no restrictions on the repatriation from Greece, Romania or Turkey of earnings to foreign entities. However, there can be no assurance that restrictions on repatriation of earnings from Romania, Greece or Turkey will not be imposed in the future.

**Exploration and Mining Risks** – The business of exploring for minerals and mining involves a high degree of risk. Although substantial benefits may be derived from the discovery of a major mineralised deposit, no assurance can be given that minerals will be discovered in sufficient quantities or having sufficient grade to justify commercial operations. Only a small proportion of the properties that are explored are ultimately developed into producing operations. The economics of developing gold and other mineral properties is affected by many factors including the cost of operations, variations of the grade of ore mined, fluctuations in the price of gold or other minerals produced, costs of processing equipment and such other factors as government regulations.

To date, the Company has identified various exploration projects and expects to continue its exploration efforts for the foreseeable future. Significant expenditure will be required for current and future exploration projects and the Company may not be able to recover such funds due to the speculative nature of exploration. In addition, if the Company is unable to find properties that justify commercial operations, it could have a material adverse effect on the Company's business, reserves and resources, and results of operations. Once mineralisation is discovered, it may take a number of years to complete the geological surveys necessary to assess whether production is possible and, even if production is possible, the economic feasibility of production may change during that time. Substantial capital expenditure is required to identify and delineate mineral reserves through geological surveying, drilling and sampling to determine metallurgical processes to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities.

Unless otherwise indicated, mineral resource and mineral reserve figures presented herein are based upon estimates made by Company personnel and independent geologists. These estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be inaccurate, and may require adjustments or downward revisions based upon further development or exploration work. There can be no assurance that these estimates will be accurate, mineral reserves, mineral resources or other mineralisation figures will be accurate, or that this mineralisation could be mined or processed profitably.

The mineral reserve and mineral resource estimates contained herein have been determined and valued based on assumed future prices, cut-off grades and operating costs that may prove to be inaccurate. Extended declines in market prices for gold and other metals and minerals may render portions of the Company's mineralisation uneconomic and result in reduced reported mineralisation. Any material reductions in estimates of mineral reserves or resources, grades, stripping ratios, recovery rates or of the Company's ability to extract mineral reserves or resources, could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company recognises that there are residual risks associated with potential capital cost overruns, late delivery of planned metal outputs and technical failures (which might only become apparent upon start-up of a new facility) in executing construction of complex new exploitation (mining) and processing facilities.

In order to adequately manage these risks, the Company prepares detailed implementation plans which typically involve using construction contracts with professionally managed main and sub-contractors. The performance of the contracts are supervised and overseen by the Company's "Owner's Team", with detailed risks (e.g. unforeseen ground conditions, weather etc.) being allocated within the contract, having taken cognisance of the cost of either retaining it or passing it either fully or partially to the contractor. Prior to commencing construction as much cost certainty (through obtaining contract quotations, detailed work breakdown schedules and Gantt style critical paths timelines) will be prepared and mutually agreed with the contractors. Sufficient contingency to cover both cost and time over-runs are built into each project's implementation plans.

Mining involves various types of risks and hazards, including: environmental hazards, industrial accidents, metallurgical and other processing problems, unusual or unexpected rock formations, structural cave-ins or slides, seismic activity, flooding, fires, periodic interruptions due to inclement or hazardous weather conditions, variations in grade, deposit size, density and other geological problems, mechanical equipment performance problems, power outages, unavailability of materials and equipment including fuel, labour force disruptions, unanticipated or significant changes in the costs of supplies including, but not limited to, electricity and petroleum, and unanticipated transportation disruptions or costs due to weather-related problems, key equipment failures, strikes, lock-outs or other events.

These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury or death, loss of key employees, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

Where considered practical to do so, the Company maintains insurance against risks in the operation of its business in amounts which it believes to be reasonable. Such insurance, however, contains exclusions and limitations on coverage. There can be no assurance that such insurance will continue to be available, will be available at economically acceptable premiums or will be adequate to cover any resulting liability. Insurance against certain environmental risks, including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from production, is not generally available, or is not available on commercially reasonable terms, to the Company or to other companies within the mining industry. The Company may suffer a material adverse effect on its business if it incurs losses related to any significant events that are not covered by its insurance policies. Payment of such liabilities would reduce funds available for acquisition of mineral prospects or development and exploration and would have a material adverse effect on the Company's business, results of operations and financial condition.

**Capital and operating cost risks** – The Company's forecasts, feasibility studies and technical reports are based on a set of assumptions current as at the date of completion of these forecasts and studies. The realised operating and capital costs achieved by the Company may differ substantially owing to factors outside the control of the Company, including currency fluctuations, supply and demand factors for the equipment and supplies, global commodity prices, transport and logistics costs and competition for human resources. Though the Company incorporates a level of contingency in its assumptions, these may not be adequate depending on market conditions.

## Management's Discussion and Analysis

### For the period ended 30 June 2011

The mining business is capital intensive and the development, exploration and exploitation of mineral reserves and resources and the acquisition of machinery and equipment require substantial capital expenditure. The Company has a number of development projects, as well as development plans for its existing operations, which involve significant capital expenditure. Such capital expenditure may include, but is not limited to, development of existing, or in some cases construction of new, infrastructure by, for example, building or upgrading existing roads, railroads or seaports. In particular, the Company must continue to invest significant capital to maintain or increase its reserves and the amount of ore it produces. Some of the Company's development and exploration projects may require greater investment than currently planned.

The Company's operations may be affected by the availability and pricing of raw materials and other essential production inputs, including fuel, steel, power and other reagents. The price of raw materials may be substantially affected by changes in global supply and demand, along with weather conditions, governmental controls and other factors. A sustained interruption in the supply of any of these materials would require the Company to find acceptable substitute suppliers and could require it to pay higher prices for such materials. Any significant increase in the prices of these materials will increase the Company's operating costs and affect production, development and exploration considerations.

Further, the Company relies on certain key third-party suppliers and contractors for equipment, raw materials and services used in, and the provision of services necessary for, the development, construction and continuing operation of its assets. As a result, the Company's operations at its sites are subject to a number of risks, some of which are outside the Company's control, including negotiating agreements with suppliers and contractors on acceptable terms, the inability to replace a supplier or contractor and its equipment, raw materials or services in the event that either party terminates the agreement, interruption of operations or increased costs in the event that a supplier or contractor ceases its business due to insolvency or other unforeseen events and failure of a supplier or contractor to perform under its agreement with the Company. The occurrence of one or more of these risks could have a material adverse effect on the Company's business, results of operations and financial condition.

**Financing Risks** – Development and exploration of one or more of the Company's properties will be dependent upon its ability to obtain financing through joint ventures, equity or debt financing or other means, and although the Company has been successful in the past in obtaining financing through the sale of equity securities and agreeing terms with banks, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to cover capital expenditure or obtain additional financing could result in delay or indefinite postponement of development and exploration of the Company's projects with the possible loss of such properties, any of which would have a materially adverse effect on the Company's business, results of operations and financial condition.

The Company currently has no debt, but intends to raise debt financing for the purpose of supporting its development projects in Greece and Romania. The Company signed a mandate letter with a group of financial institutions in December 2010 to arrange a US\$300 million secured term and revolving facility for Hellas Gold and has already received credit commitments from a group of financial institutions for a US\$135 million Project Finance facility for Deva Gold (the "Facilities"). There is no guarantee that the Facilities will close in a timely fashion, on the terms negotiated or at all. In the event the Facilities are not put in place in a timely fashion or at all, certain of the Company's planned development and operations for the Company's projects may be delayed. Risks to closing the Facilities include among other things, settlement of final documentation and satisfaction of technical, legal and environmental due diligence. In addition, the Company plans to supplement its debt financing through equity funding.

The documentation for the Facilities is expected to include agreements granting security over the Company's assets that may involve restrictive covenants limiting the Company's operating flexibility going forward. It is also expected that the Company will be required to cross guarantee all or part of the obligations of Hellas Gold and Deva Gold under the Facilities. If either Hellas Gold or Deva Gold is unable or fails to pay its indebtedness or other obligations, a creditor under such Facilities may require the Company to pay all amounts due, which may have a material adverse impact on the Company's profitability, cash flow and financial condition.

Furthermore, entering into such Facilities will introduce interest rate risk to the Company as its borrowing costs will fluctuate depending on prevailing interest rates at the time it accesses the Facilities, which may have an adverse effect on the Company's future profitability.

While neither the Company's articles of incorporation nor its by-laws limit the amount of indebtedness that the Company may incur, the level of the Company's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis, or at all, and to take advantage of business opportunities that may arise, thereby potentially limiting the Company's operational flexibility and prospects.

**Future Acquisitions** – Part of the Company's strategy is to increase its resources and reserves through acquisitions of interests in further mineral properties. Risks commonly associated with acquisitions of companies, businesses or properties include the difficulty of integrating operations and personnel in relation to any such business or property, problems with minority shareholders if the transactions are structured as the acquisition of companies, the potential disruption of the Company's own business, the diversion of management's time and resources, and the possibility that indemnification agreements with sellers may be unenforceable or

insufficient to cover potential liabilities and difficulties arising out of integration. Furthermore, the value of any business, company or property that the Company acquires or invests in may actually be less than the amount it pays for it.

There can be no assurance that any acquisition will achieve the results intended and any problems experienced by the Company in connection with an acquisition as a result of one or more of these factors or other factors could have a material adverse effect on the Company's business, results of operations and financial condition.

**Mineral and Commodity Prices** – The Company's profitability and long-term viability depend, in large part, upon the market price of gold, silver, copper and other metals and minerals produced from the Company's properties. The market price of gold, silver, copper and other metals and minerals is volatile and is impacted by numerous factors beyond the Company's control, including: expectations with respect to the rate of inflation, the relative strength of the U.S. dollar and certain other currencies, interest rates, global or regional political or economic conditions, supply and demand for jewellery and industrial products containing metals, costs of substitutes, changes in global or regional investment or consumption patterns, and sales by central banks and other holders, speculators and producers of gold, silver, copper and other metals and minerals in response to any of the above factors.

While the Company enters into financial transactions in the normal course of business for the purpose of hedging its base metal production at Stratoni and managing its expected exposure to commodity prices, these are of a limited nature and, therefore, the Company's long term financial performance is still highly dependent upon the market price of gold and other metals.

There can be no assurance that the market price of gold, silver, copper and other metals and minerals will remain at current levels or that such prices will improve. A decrease in the market price of gold, silver, copper and other metals and minerals could adversely affect the profitability of the Company's existing operations, which would have a material adverse effect on the Company's business, results of operations and financial condition. A decline in the market price of gold, silver, copper or other metals and minerals, may also require the Company to write-down its mineral reserves or abandon some or all of its current development and exploration plans, any of which would have a material adverse effect on the Company's business, results of operations and financial condition.

**Currency fluctuations** – Gold and other metals are sold throughout the world principally in U.S. dollars. Further, the capital markets in which the Company expects to have access to for financing (debt and equity), are predominantly denominated in United States dollars. The Company's capital and operating costs are incurred principally in Euros, with smaller exposures to the Romanian lei and the Turkish lira. The Company does not currently use any derivative products to manage or mitigate any foreign exchange exposure. As a result, any significant and sustained appreciation of the Euro or other currencies against the U.S. dollar may materially increase the Company's costs and reduce revenues.

**Negative operating results and operating cash flow** – The Company incurred a loss before income taxes of \$20.17 million and \$26.00 million for the six month periods ended 30 June 2011 and 2010 respectively, and \$15.24 million and \$20.32 million for the three month periods ended 30 June 2011 and 2010 respectively. The Company had negative operating cash flow for the twelve months ended 31 December 2010 and 2009, and may experience periods of negative operating cash flow in the future.

The Company may continue to incur losses before income taxes and have negative operating cash flow until its development projects are in production or longer. Furthermore, the Company will continue to significantly increase capital expenditure in order to ensure its development projects are constructed. A failure to obtain a profit or positive operating cash flows could have a material adverse effect on the Company's financial results, production and development and exploration projects and the market price of the Common Shares.

**Counterparty credit risk** – The Company's credit risk is primarily attributable to trade receivables from concentrate sales to its offtakers and on cash balances and short term investments with the Company's bankers. Though the Company selects its offtakers considering their credit standing and tries to diversify this risk by selling to a number of different offtakers, there is a risk that the Company will not realise its trade receivables should these offtakers not perform. While the majority of the Company's cash and cash equivalents are on deposit with banks or money market participants with a Standard and Poors rating of at least A, there can be no assurance that the Company will be able to realise the full value of these accounts in a timely manner or at all.

**Mining, development, exploration and other licences** – The Company's current operations, including further mining, development, exploration and other mining activities, require certain licenses, concessions, leases, permits and regulatory consents (the "Authorisations") from various levels of governmental authorities. The Company may also be required to obtain certain property rights to access, or use, certain of its properties in order to proceed to development. Obtaining the necessary governmental permits can be a complex and time-consuming process. The duration and success of permit applications are contingent on many factors that are outside the Company's control. There can be no assurance that all Authorisations which the Company requires for the conduct of mining operations will be obtainable on reasonable terms or in a timely manner, or at all, that such terms may not be adversely changed, that required extension will be granted, or that the issuance of such Authorisations will not be challenged by third parties. Delays in obtaining or a failure to obtain such Authorisations or extension thereto, challenges to the issuance of such Authorisations, whether successful or unsuccessful, changes to the terms of such Authorisations, or a failure to comply with the terms of any such Authorisations that the Company has obtained, could have a material adverse impact on the Company's business, results of operations financial condition and the market price of the Common Shares.

## Management's Discussion and Analysis

### For the period ended 30 June 2011

**Title matters** – While the Company has diligently investigated title to all mineral concessions and, to the best of the Company's knowledge, title to all of its properties are in good standing, this should not be construed as a guarantee of title. The Company's properties may be subject to prior unregistered agreements or transfers that have not been recorded or detected through title research and title may be affected by undetected defects. There can be no assurance that title to some of the Company's properties will not be challenged or impugned. Additionally, the land upon which the Company holds exploration rights may not have been surveyed and, therefore, the precise area and location of such interests may be subject to challenge. Any defects or challenges could adversely affect the Company's title to the affected properties, or delay or increase the cost of development of such properties.

**Environmental and other regulatory requirements** – The Company's activities are subject to environmental laws, regulations and permits promulgated by government agencies from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. Environmental legislation also provides for restrictions on the use of resources such as water. For example, the Company may require licenses for the use of water in its operations. The costs associated with compliance of such laws, regulations and permits are substantial, and possible additional future laws and regulations, changes to existing laws and regulations or more stringent enforcement or restrictive interpretation of current laws and regulations by governmental authorities could cause additional expenditure to be incurred or impose restrictions on, or suspensions of, the Company's operations and delays in the development of its assets. For example, the Company's regulatory permits require that it set aside certain amounts as rehabilitation bonds to cover the cost of decommissioning plants and general site rehabilitation.

A breach of environmental legislation, related regulatory requirements or permit conditions may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

The Company's current development and exploration activities require permits from various governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. Companies engaged in development and exploration activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for development and exploration will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Company may undertake. The Company believes it is in substantial compliance with all material laws and regulations which currently apply to the Company's activities. However, there may be unforeseen environmental liabilities resulting from development, exploration and/or mining activities and these may be costly to remedy.

Amendments to current laws, regulations and permits governing operations and activities of development and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenditures and costs, or require abandonment, or cause delays in developing new mining properties.

**Health, safety and community relations** – The Company's operations are subject to various health and safety laws and regulations that impose various duties on the Company's operations relating to, among other things, worker safety and surrounding communities. These laws and regulations also grant the authorities broad powers to, among other things, close unsafe operations and order corrective action relating to health and safety matters. The costs associated with the compliance of such health and safety laws and regulations may be substantial and any amendments to such laws and regulations, or more stringent implementation thereof, could cause additional expenditure or impose restrictions on, or suspensions of, the Company's operations. The Company has made, and expects to make in the future, significant expenditure to comply with the extensive laws and regulations governing the protection of the environment, waste disposal, worker safety, mine development and protection of endangered and other special status species, and, to the extent reasonably practicable, create social and economic benefit in the surrounding communities.

As a mining business, the Company may come under pressure in the jurisdictions in which it operates, or will operate in the future, to demonstrate that other stakeholders (including employees, communities surrounding operations and the countries in which they operate) benefit and will continue to benefit from the Company's commercial activities, and/or that the Company operates in a manner that will minimise any potential damage or disruption to the interests of those stakeholders. The Company currently maintains good relations with local communities in the areas in which it operates and has a demonstrable track record of promoting community and social relations activities for the benefit of local communities. However, the Company may face opposition with respect to its current and future development and exploration projects which could materially adversely affect the Company's business, results of operations and financial condition.

Further, certain non-governmental organisations (“NGOs”), some of which oppose globalisation and resource development, are often vocal critics of the mining industry and its practices, including the use of hazardous substances in processing activities. Adverse publicity generated by such NGOs or others related to extractive industries generally, or the Company's operations specifically, could have an adverse effect on the Company's reputation and financial condition and may impact its relationship with the communities in which it operates. The Company seeks to mitigate this risk by its commitment to operate in a socially responsible manner. However, there can be no guarantee that the Company's efforts in this respect will mitigate this potential risk.

The Company may also be held responsible for the costs of addressing contamination at the site of current or former activities and could be held liable for exposure to hazardous substances. The costs associated with such responsibilities and liabilities may be significant.

**Tax matters** – The Company's tax residency is affected by a number of factors, some of which are outside of its control, including the application and interpretation of the relevant tax laws and treaties. If ever the Company was assessed to be non-tax resident in Canada, it may be liable to pay additional Canadian taxes, including, but not limited to, capital gains tax based on the difference between the fair market value and tax cost of its assets at the relevant time. If such taxes were to become payable, this could have a material adverse effect on the Company's business, results of operations and financial condition. Further, the income tax consequences to holders of Common Shares would be different from those applicable if the Company were resident in Canada.

**Dependence on management** – The Company's development to date has largely depended and in the future will continue to depend on the efforts of key management and other key personnel. Loss of any of these people, particularly to competitors, could have a material adverse effect on the Company's business. Further, with respect to the development of the Company's projects, it will become necessary to attract both international and local personnel for this development. The marketplace for skilled personnel is becoming more competitive, which means the cost of hiring, training and retaining such personnel may increase. Factors outside the Company's control, including competition for human capital and the high-level of technical expertise and experience required to execute this development will affect the Company's ability to employ the specific personnel required. The failure to retain or attract a sufficient number of skilled personnel could have a material adverse effect on the Company's business, results of operations and financial condition. The Company has not taken out and does not intend to take out key man insurance in respect of any directors, officers or other employees.

**Competition** – The international mining industry is highly competitive. The Company's ability to acquire properties and add mineral reserves in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for mineral exploration, of which there is a limited supply. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Company. The Company may also encounter competition from other mining companies in its efforts to hire experienced mining professionals. Competition could adversely affect the Company's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future. Competition for services and equipment could cause project costs to increase materially, resulting in delays if services or equipment cannot be obtained in a timely manner due to inadequate availability, and increase potential scheduling difficulties and cost increases due to the need to coordinate the availability of services or equipment, any of which could materially increase project development, exploration or construction costs, result in project delays or both.

**Conflicts of interest and related party transactions** – Certain directors of the Company are, and may continue to be, involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnership or joint ventures which are potential competitors of the Company. Situations may arise in connection with potential acquisitions in investments where the other interests of these directors may conflict with the interests of the Company. Directors of the Company with conflicts of interest will be subject to and will follow the procedures set out in applicable corporate and securities legislation, regulations, rules and policies.

The Company has entered into, and may, in the future, enter into, arrangements or transactions with related parties, including Aktor and its subsidiaries, companies controlled by it or in which it owns a controlling interest, and with entities in which the executive and/or non-executive directors are connected, which may be on terms that it may not be possible to achieve with other third parties. For example, Aktor and its subsidiaries are currently responsible for many capital projects as well as the Company's current mining operations. The Company is aware of its legal and regulatory obligations with respect to related party transactions, and the Company has procedures in place to ensure that prospective related party transactions are properly reported and approved, including by its Shareholders where necessary.

## Management's Discussion and Analysis

### For the period ended 30 June 2011

**Legal Proceedings** – The Company is currently involved with administrative proceedings in the European Commission. If decided adversely to the Company, these proceedings, or other legal proceedings that could be brought against the Company in the future which are not now known, for example, litigation based on its business activities, environmental laws, volatility in its stock price or failure to comply with its disclosure obligations, could have a material adverse effect on the Company's business, results of operations and financial condition.

**Non-Canadian assets and management** – While the Company is incorporated under the laws of Yukon and its registered office is located in Whitehorse, the Company also has an office in London, England. Furthermore, its officers and directors and substantially all of the assets of the Company are located outside Canada. It may not be possible for holders of securities to effect service of process within Canada upon such officers and directors who reside outside Canada. There may be difficulty in enforcing against the Company's assets and judgments obtained in Canadian courts predicated upon the provisions of applicable Canadian provincial securities legislation may not be recognised or enforceable in jurisdictions where the Company's officers or directors reside or where the Company's assets are located.

**Depletion of reserves** – Unless replaced with new or additional reserves, the Company's reserves will decline as gold, copper, lead and zinc are mined from its operations. To realise future production growth, extend the lives of its operations and ensure the continued operation of the business, the Company must continue to realise its existing identified reserves, convert resources into reserves, achieve success in a certain number of its exploration initiatives and/or acquire additional reserves and resources.

There can be no assurance that the Company's ability to find additional reserves in the future will be adequate to support the future production levels at those operations. If the Company is unsuccessful in replacing existing reserves, then the Company will not be able to extend production beyond its current reserve base which would materially adversely affect the Company's future business.

**Labour laws and unions** – The Company is subject to various labour laws which impose certain costs and obligations upon the Company. Although management believes its labour relations, with both employees and contractors, are good, there can be no assurance that a work slowdown, work stoppage or strike will not occur at any of the Company's operations. There can also be no assurance that wages or other operational costs will not rise due to changes in labour relations or availability or union activities. Further, any new or amended labour laws in relevant jurisdictions may increase the Company's labour costs. Any of the above could have a material adverse effect on the Company's business results of operations and financial condition.

**Carrying value of property** – Based on annual impairment reviews made by management, in the event that the long-term expectation is that the net carrying amount of certain capitalised development and exploration costs will not be recovered, then the carrying amount is written down to the appropriate fair value, with the write-down amount charged to the income statement. These write-downs could occur if: the carrying amounts of the capitalised costs exceed the related undiscounted net cash flows of reserves; exploration activities have ceased; exploration results are not promising such that exploration will not be planned for the foreseeable future; or insufficient funding is available to complete the development and exploration program.

Expected future cash flows are inherently uncertain, and could materially change over time. They are significantly affected by reserve and production estimates, together with economic factors such as spot and forward gold prices, discount rates, currency exchange rates, estimates of costs to produce reserves and future capital expenditure. If any of these uncertainties occur either alone or in combination, it could require management to recognise an impairment, which could adversely affect the Company's business, results of operations and financial condition.

**Customers** – The Company is currently under contract to sell the base metal concentrates produced from ore extracted from its Stratoni mine to a single off-taker. If the off-taker were unexpectedly to reduce or discontinue its purchasing of the Company's metals, no assurance can be given that delays or disruptions in sales would not be experienced until such time as alternative customers could be found, or that arrangements with alternative customers would be entered into on terms as favourable to the Company. There can be no guarantee that alternative customers would be available on similar terms, or at all. Any of the foregoing risks could have a negative impact on the Company's results of operations.

## Management's Discussion and Analysis

### For the period ended 30 June 2011

#### Disclosure controls & procedures and internal control over financial reporting

The Executive Chairman and the Chief Financial Officer of the Company (the "**Certifying Officers**") have established and maintained in the period ended 30 June 2011 disclosure controls and procedures ("**DC&P**") and internal control over financial reporting ("**IFCR**") for the Company.

The Certifying Officers have caused DC&P, as defined in National Instrument 52-109 ("**NI 52-109**"), to be designed under their supervision, to provide reasonable assurance that material information relating to the Company and its subsidiaries is made known to the Certifying Officers by others within those entities, as appropriate, to allow decisions regarding required disclosure within the time periods specified by legislation, particularly during the period in which interim and annual filings are being prepared.

The Certifying Officers have evaluated the effectiveness of the Company's DC&P as at 30 June 2011. Based upon that evaluation, the Certifying Officers have concluded that the DC&P are adequate and effective for the period ended 30 June 2011.

The Certifying Officers have caused internal control over financial reporting, as defined in NI 52-109, to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

As of 30 June 2011 the Certifying Officers assessed the effectiveness of the Company's internal control over financial reporting. Based upon that evaluation, the Certifying Officers concluded that the internal controls and procedures are adequate and effective for the period ended 30 June 2011.

During the period ended 30 June 2011, there has been no change in the Company's internal control over financial reporting that have materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Certifying Officers believe that disclosure controls and procedures and internal control systems can only provide reasonable assurance, and not absolute assurance, that such objectives are met.

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 estimates using reasonable judgement.

The consolidated financial statements have been prepared by management in accordance with IFRS.

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