

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE-AND SIX-MONTH PERIOD ENDED 30 JUNE 2010

The following discussion and analysis, prepared as at 10 August 2010, 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 unaudited consolidated financial statements for the three- and six-month periods ended 30 June 2010 and 2009 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 Straton 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: changes in the price of gold, base metals or certain other commodities (such as fuel and electricity) and currencies; uncertainty of mineral reserves, mineral resources, grades and recovery estimates; uncertainty of future production, capital expenditures and other costs; currency fluctuations; financing and additional capital requirements; the successful and timely permitting of the Company's Skouries, Olympias and Certej projects; legislative, political, social or economic developments in the jurisdictions in which the Company carries on business; operating or technical difficulties in connection with mining or development activities; the speculative nature of gold and base metals exploration and development, including the risks of diminishing quantities or grades of mineral reserves; the risks normally involved in the exploration, development and mining business; and risks associated with internal control over financial reporting. 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.*

## RESULTS OF OPERATIONS

The Company's results of operations for the three-and six-month periods ended 30 June 2010 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 SUMMARY

**Final EIS Submitted** – The final Environmental Impact Study (“EIS”) for the Company's Project in Halkidiki (the “Project”) in North-Eastern Greece has now been submitted to the Greek Ministry of Environment, Energy and Climate Change (“MoE”).

In late September 2009, the Greek authorities completed the Preliminary Environmental Assessment and Evaluation based on the Preliminary Environmental Impact Study (“PEIS”) submitted by the Company's 95%-owned subsidiary Hellas Gold SA, and issued a pre-approval of the construction and operation of the Project.

The Project consists of:

- The development of mining and processing at the Skouries project
- The next stages of the Olympias project, namely the mining and processing of ore and metallurgical treatment of the concentrate, in accordance with the business plan as originally submitted
- Continuation of operations at the Mavres Petres deposit of the Stratoni Mine
- Development of the port facilities at Stratoni to service the above projects' operations

The completion and submission of the final EIS is another landmark in European Goldfields' development of the Project. The EIS will now be subject to the final stages of a decision-making process that conforms to the EU Directive on Environmental Impact Assessment. In summary, the EIS is reviewed by the competent authorities and is subject to public consultation, the requirements for which are set out in this EU Directive and embodied in Greek law.

**Drill Permit Approved** – The Company announced in June the approval of an exploration drill permit within its 317 km<sup>2</sup> Greek Licence Area which hosts the Stratoni mine, the Olympias and Skouries development projects and three drill-ready exploration targets.

The Company plans to advance a pipeline of highly prospective exploration targets, all located within 10km of the Company's producing mine and development projects. The Board of Directors has approved a US\$9.2 million exploration budget for Greece with the primary objective of increasing gold resource ounces to add to the 7.5 million proven and probable gold reserve ounces already defined at Olympias and Skouries.

**Stratoni Environmental Permit Extended** – The Environmental Permit for its Stratoni lead-zinc-silver mine has been extended until the end of July 2012. The extended permit was received by the Company from the MoE on the 12<sup>th</sup> of July. The extended permit ensures production can continue until the granting of the overall Environmental Permit for all of European Goldfields' projects in Northern Greece.

**Reserves Update** – New reserves have been estimated for the Company's Stratoni operation as follows:

Reserve Category	'000t	Ag g/t	Ag Moz	Pb %	Pb '000t	Zn %	Zn '000t
Proven	1,657	174	9.3	6.1	101	8.5	141
Probable	103	225	0.7	8.7	9	9.3	10
<b>Total</b>	<b>1,760</b>	<b>177</b>	<b>10.0</b>	<b>6.3</b>	<b>110</b>	<b>8.5</b>	<b>150</b>

The Company's ongoing mining activities at Stratoni depleted the reserve by a total of some 295,000 wet tonnes over the course of 2009 and Q1 2010 compared to the January 2009 reserve detailed in the June 2009 report. Additional tonnes were added through exploration to the lower part of the mine but were offset by other sections of the mine being inaccessible due to adverse geotechnical conditions. The deposit is open in several directions and further expansion of reserves is planned through the 2010 exploration drilling programme.

The Company's Resource and Reserve statement has also been updated to reflect the depletion of the Olympias gold concentrate stockpile.

## Olympias project

Hellas Gold has fully depleted the surface stockpile of pyrite gold concentrate at Olympias. Sales of Olympias gold concentrate will resume once Hellas Gold receives the permits to process 2.4Mt of stockpiled tailings arising from the previous operations at Olympias and when plant rehabilitation is completed. The sales of pyrite concentrates over the past 8 quarters were as follows:

Sale of Gold-Bearing Concentrates from Existing Stockpile								
	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3
<b>Sales</b>								
Gold concentrate (dmt)	Nil	Nil	34,182	21,734	32,134	26,832	18,566	12,710

## Stratoni operations

The Company's cash flow positive mining operations at Stratoni continue to demonstrate European Goldfields' permitting and environmental capabilities and commitment to the highest levels of social responsibility.

**Production** - The Company's 95% owned subsidiary Hellas Gold mined a total of 64,813 wet tonnes in Q2 2010 (Q2 2009 – 60,023). Hellas Gold's results from its operations at Stratoni for the eight most recently completed quarters are summarised in the following table:

Operational results								
	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3
<b>Inventory (start of period)</b>								
Ore mined (wet tonnes)	14,089	1	8,097	2,293	4,010	1,778	6,489	1,003
Zinc concentrate (tonnes)	2,839	2,817	583	25	621	2,975	2,078	5,660
Lead/silver concentrate (tonnes)	1,105	824	857	2,090	1,393	488	1,294	1,238
<b>Production</b>								
Ore mined (wet tonnes)	64,813	63,294	57,247	57,235	60,023	56,892	70,468	69,847
Ore milled (tonnes)	60,663	47,701	63,345	50,167	60,287	52,984	73,320	63,040
- Average grade: Zinc (%)	8.91	9.90	8.64	9.10	8.87	7.85	8.80	8.82
Lead (%)	5.58	6.24	5.40	5.18	5.56	6.42	6.54	6.40
Silver (g/t)	145	159	140	133	141	166	167	160
Zinc concentrate (tonnes)	10,103	8,852	10,572	8,495	9,975	7,932	12,106	10,451
- Containing: Zinc (tonnes)	4,942	4,334	5,080	4,248	4,971	3,827	5,914	5,132
Lead concentrate (tonnes)	4,479	4,040	4,684	3,503	4,483	4,667	6,750	5,531
- Containing: Lead (tonnes)	3,092	2,727	3,143	2,376	3,060	3,129	4,434	3,726
Silver (oz)	233,760	203,914	236,621	177,650	230,106	240,366	336,336	280,305
<b>Sales</b>								
Zinc concentrate (tonnes)	10,279	8,830	8,338	7,937	10,571	10,286	11,210	14,033
- Containing payable: Zinc (tonnes)*	4,159	3,633	3,380	3,325	4,427	4,144	4,591	5,818
Lead concentrate (tonnes)	4,682	3,759	4,717	4,736	3,786	3,762	7,556	5,475
- Containing payable: Lead (tonnes)*	3,071	2,385	3,030	3,042	2,448	2,347	4,775	3,495
Silver (oz)*	232,212	178,184	227,661	228,574	183,452	183,504	363,205	263,464
Cash operating cost per tonne milled (\$)	141	151	173	165	144	156	145	164
Cash operating cost per tonne milled (€)	110	110	117	116	106	119	109	109
<b>Inventory (end of period)</b>								
Ore mined (wet tonnes)	16,392	14,089	1	8,097	2,293	4,010	1,778	6,489
Zinc concentrate (tonnes)	2,663	2,839	2,817	583	25	621	2,975	2,078
Lead/silver concentrate (tonnes)	902	1,105	824	857	2,090	1,393	488	1,294

\* Net of smelter payable deductions

## ROMANIA SUMMARY

**Final EIS Submitted** – The final Environmental Impact Study (“EIS”) for the Company’s Certej Project in Romania has now been submitted. This follows the issue of the Zonal Urbanisation Plan (“PUZ”) planning document by local authorities in May 2010, which included an environmental summary and public consultation, and the subsequent definitive confirmation of final guidelines for the EIS. The completion and submission of the final EIS report is another landmark in European Goldfields’ development of the Certej Project.

The EIS will now be subject to the final stages of a Romanian decision-making process that conforms to the EU Directive on Environmental Impact Assessment. In summary the EIS is reviewed by the competent authorities and is subject to public consultation, the requirements for which are set out in this EU Directive and embodied in Romanian law.

**Final Credit Approval for Certej Financing** – The Company has received formal letters of commitment to underwrite a US\$135 million financing package to part fund the development costs of the Certej gold-silver Project in Romania (the “Project”). The Mandated Lead Arrangers are Caterpillar Financial SARL, ING Bank N.V., Investec Bank plc, UniCredit Bank AG, London Branch and WestLB AG, London Branch, (together the “MLAs”).

The structure of the financing package has further been optimised since the signing of the mandate letter and now consists of an 8 year US\$120 million secured, limited recourse debt facility and a US\$15 million secured equipment lease facility. The commitments are on the basis of detailed term sheets which have been agreed with the Company and a Technical, Environmental and Social Audit of the Project conducted by SRK Consulting on behalf of the MLAs.

## GROUP EXPLORATION UPDATE

**Greece** – Following the recent approval of the exploration permit for the Greek Licence area, the Company has initiated a planned programme of drilling totaling 40,500m for the 3 main exploration targets, Piavitsa, Fisoka and Tsikara, aimed at establishing continuity and delineating resources.

**Romania** – The Company has identified a series of epithermal and porphyry drill targets within the Romanian licence area that includes extensions to historically exploited gold bearing systems, previously unrecognized ‘blind porphyry and epithermal targets and massive sulphide deposits previously untested for gold and silver. Following infill sampling a programme of drill and trench testing will be carried out in Q3 and Q4 with a total approved budget of US\$4.4 million for 2010.

**Turkey** – Detailed surface worked carried out by the Company has defined a number of new targets on licences held in Joint Venture agreements with Ariana Resources and Aldridge Minerals. These targets are due to be drilled during the second half of 2010 under the approved US\$2.1 million exploration budget.

## CORPORATE ACTIVITY

**Appointment of Nominated Advisor and Joint Broker** – Liberum Capital Limited was appointed as NOMAD and Joint Broker and Evolution Securities Limited as Joint Broker to the Company on 10 June 2010.

**New Appointments** – Steve Sharpe has been appointed as Vice President, Business Development. Mr Sharpe has over 25 years investment banking experience, focused primarily on the mining sector. Before joining European Goldfields he was Managing Director-Structured Finance at Canaccord Genuity Limited, and prior to that held senior management positions at Endeavour Financial, Standard Bank and N M Rothschild & Sons Limited.

## 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:

<i>(in thousands of US dollars)</i>	Financial performance							
	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3
Sales	12,017	11,134	13,656	11,500	9,472	4,935	8,465	13,250
EBITDA	2,290	3,018	2,601	1,315	305	(3,025)	(5,233)	1,742
Gross profit	320	1,378	1,196	(449)	(1,561)	(4,345)	(7,060)	171
Capital expenditure	1,336	287	2,053	596	2,793	4,214	3,543	2,496
Depreciation and depletion	1,970	1,640	1,405	1,764	1,866	1,320	1,827	1,571

Base metal prices had a downward trend during Q2 2010 after a strong improvement since the beginning of 2009. However, base metal revenues and earnings before interest, taxes, depreciation and amortisation ("EBITDA") for the quarter ending the 30 June 2010 saw a strong improvement compared to the same period in 2009.

Reconciliation of Stratoni 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	\$2,057t	\$1,822t	\$8.30oz	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 adjustments	(289)	(79)	(69)	(437)
Total revenue	5,474	4,906	1,637	12,017

Reconciliation of Stratoni revenues – Q2 2009				
<i>(in thousands of US dollars unless stated otherwise)</i>	Zinc	Lead	Silver	Total
Payable metal	4,427t	2,448t	183,452oz	n/a
Realised price	\$1,509t	\$1,697t	\$8.15oz	n/a
Payable metal revenue	6,680	4,155	1,496	12,331
TC/RCs	(2,441)	(385)	(165)	(2,991)
Transport recoveries/(charges)	205	-	-	205
Net revenue	4,444	3,770	1,331	9,545
Prior quarter adjustments	(40)	(28)	(5)	(73)
Total revenue	4,404	3,742	1,326	9,472

Total quarterly revenues from concentrate sales increased year on year, primarily as a result of higher metal prices realised. Payable metal sales were at similar levels: payable zinc decreased 6%, payable lead and silver increased 25% and 27% respectively compared to the prior year quarter; whereas realised prices showed a very strong recovery: realised prices for zinc were \$2,057 per tonne, up 36%, and for lead \$1,822 per tonne, up 7% compared to Q2 2009. As base metal prices trended downwards during Q2 2010, prior quarter revenue adjustments yielded a negative revenue impact for Q2 2010. Higher realised prices compared to the prior year quarter led to an increase of 30% in payable base metal revenues.

## Olympias project

Hellas Gold completed all the shipments of Olympias concentrates in Q4 2009 representing the total of the surface gold bearing concentrate stockpile.

<i>(in thousands of US dollars)</i>	Financial performance							
	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3
Sales	(48)	(699)	5,073	5,537	6,732	5,807	4,309	2,851
Gross profit	(48)	(699)	4,067	4,012	4,747	4,003	2,995	1,222
Depreciation and depletion	-	-	196	124	184	153	106	72

Although no sales were made in Q2 2010, final pricing adjustments to prior period sales as a result of a lower gold price incurred negative revenues of \$0.01 million, compared to positive revenues of \$6.73 million for the same period in 2009. Q4 2009 saw the gold price break through the \$1,200 per ounce level, and some of the sales invoices finalised in 2010 had to be marked down from these levels.

## 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, except per share amounts)</i>	Financial performance							
	2010 Q2 \$	2010 Q1 \$	2009 Q4 \$	2009 Q3 \$	2009 Q2 \$	2009 Q1 \$	2008 Q4 \$	2008 Q3 \$
<b>Statement of Profit and Loss</b>								
Sales	11,969	10,435	18,729	17,037	16,204	10,742	12,774	16,101
Cost of sales	11,697	9,756	13,466	13,474	13,018	11,084	16,839	14,708
Gross profit	272	679	5,263	3,563	3,186	(342)	(4,065)	1,393
Interest income	35	62	(163)	147	133	508	1,164	1,306
Foreign exchange gain/(loss)	(10,354)	1,563	88	(501)	1,719	(2,882)	(6,253)	(2,800)
Hedge contract profit	394	-	373	1,030	1,801	2,417	3,165	1,362
Share of profit/(loss) in associate	39	-	(3)	(187)	18	60	(3)	(66)
Expenses	10,941	8,128	11,251	5,384	4,204	3,740	5,253	6,054
Profit/(loss) before income taxes	(20,555)	(5,824)	(5,693)	(1,332)	2,653	(3,979)	(11,245)	(4,859)
Income taxes	1,941	(438)	(991)	(1,847)	(1,078)	540	17,067	(451)
Profit/(loss) after income taxes	(18,614)	(6,262)	(6,684)	(3,179)	1,575	(3,439)	5,822	(5,310)
Non-controlling interest	341	(77)	(159)	56	(136)	183	519	267
Profit/(loss) for the period	(18,273)	(6,339)	(6,843)	(3,123)	1,439	(3,256)	6,341	(5,043)
Earnings/(loss) per share	(0.10)	(0.03)	(0.04)	(0.02)	0.01	(0.02)	0.04	(0.03)

The Company recorded a loss before taxes of \$26.38 million for the six-month period ended 30 June 2010, compared to a loss before taxes of \$1.33 million for the same period of 2009. The Company recorded a net loss (after taxes and non-controlling interest) of \$24.61 million (\$0.13 loss per share) for the six-month period ended 30 June 2010, compared to a net loss of \$1.82 million (\$0.01 loss per share) for the same period of 2009.

The Company recorded a loss before taxes of \$20.56 million for the three-month period ended 30 June 2010, compared to a profit before taxes of \$2.65 million for the same period of 2009. The Company recorded a net profit (after taxes and non-controlling interest) of \$1.44 million (\$0.01 profit per share) for the three-month period ended 30 June 2010, compared to a net loss of \$18.27 million (\$0.10 loss per share) for the same period of 2009.

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

- Most importantly, with the pyrite stockpile fully depleted, the Company's gold concentrate business has been suspended until the retreatment of the tailings dump at Olympias can begin. The sale of gold concentrates has been a more significant profit driver for the Company than the base metals business for the past two years. Therefore, in the three and six-month periods ended 30 June 2010, Hellas Gold

sold a total of Nil tonnes of gold bearing pyrite concentrates from Olympias, compared to 32,134 tonnes and 58,966 tonnes respectively in the three and six months to 30 June 2009.

- There was a positive trend for base metal price in the three-month period ended 30 June 2010: lead and zinc prices were both higher than lead and zinc price levels during Q2 2009. In the three-month period ended 30 June 2010, zinc averaged \$2,052 per tonne and lead \$1,972 per tonne compared to \$1,509 per tonne and \$1,520 per tonne respectively for the same period in 2009. As a result of price increases, revenues from payable zinc in Q2 2010 increased 24% compared to Q2 2009, and revenues from payable lead increased 31% over the same period. The Stratoni mine was operating at higher mining levels in the second quarter of 2010 than in the same period of 2009, with mine production increasing 8%, although mill processing increased 1% respectively. Once again, Stratoni ended the quarter with a large ROM stockpile which will be processed next quarter. Sales of payable metal in Q2 2010 were in line with mill production for the quarter, with payable zinc of 4,159 tonnes, a 6% decrease over the same period in 2009, and payable lead up by 25% to 3,071 tonnes.
- A more accentuated trend for base metal prices is seen during the six-month period ended 30 June 2010 compared to the same period in 2009. In the six month period ended 30 June 2010, zinc averaged \$2,183 per tonne and lead \$2,110 per tonne compared to \$1,356 per tonne and \$1,337 per tonne respectively for the same period in 2009. Overall this price trend was the key driver for payable metal revenues increasing 61% in the first half of 2010 compared to the same period in 2009. The Stratoni mine was operating at higher mining levels in the first half of 2010 than in the same period of 2009, with mine production increasing 10%, although campaign milling meant that mill processing fell 4%. In light of the stockpile increase, tonnes of payable zinc sold in H1 2010 fell 9% compared to H1 2009, whereas tonnes of payable lead increased 14% over the same period.
- Cost of sales of \$21.45 million in the first half of 2010 and \$11.70 million in Q2 2010, compared to \$24.10 million and \$13.02 million, respectively, for the same periods of 2009, and included \$3.61 million in depreciation and depletion expenses in the first half of 2010 and \$1.97 million in Q2 2010, compared to \$3.52 million for the same period of 2009 and \$2.05 million in Q2 2009. In the first half of 2010, lower production and US dollar unit operating costs reduced Stratoni costs of production by \$1.19 million, and transport costs were \$2.96 million lower, resulting primarily from no gold concentrate sales in 2010; amortization and depreciation were \$0.09 million higher due to higher production in the first half of 2010; and changes to inventory increased costs of sales by \$1.52 million. For the quarter ended 30 June 2010 compared to the same period in 2009, the trends were: \$0.14 million reduction in cost of production driven by lower US dollar unit operating costs, \$1.54 million lower transport costs, \$0.08 million lower amortization and depreciation, and a lower transfer of cost to inventory of \$0.33 million.
- As a result, the Company recorded a gross profit of \$0.95 million in the first half of 2010 and \$0.27 million in Q2 2010, on revenues of \$22.40 million and \$11.97 million, respectively, compared to a gross profit of \$2.84 million in the first half of 2009 and \$3.19 million in Q2 2009 on revenues of \$26.95 and \$16.20 million, respectively, for the same periods of 2009.
- The Company's corporate administrative and overhead expenses have increased from \$2.07 million in the first half of 2009 and \$1.07 million in Q2 2009 to \$6.23 million and \$4.24 million, respectively, for the same periods in 2010. The main element of this increase relates to consulting and legal fees relating to the permitting processes in Greece and Romania, and the financing for Certej which were incurred during Q2 2010.
- The Company recorded a non-cash equity-based compensation expense of \$4.76 million in the first half of 2010 and \$1.13 million in Q2 2010, compared to \$0.96 million and \$0.53 million, respectively, for the same periods of 2009. Again, the changes relate to increased equity compensation from Q4 2009 increasing the 2010 charges compared to 2009. Equity-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 loss of \$8.79 million in the first half of 2010 and a foreign exchange loss of \$10.35 million in Q2 2010, the majority of which being unrealised, compared to a foreign exchange loss of \$1.16 million in the first half of 2009 and a foreign exchange gain of \$1.72 million in Q2 2009. 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 net current assets or liabilities. Since Hellas Gold has large net 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, as the Euro started to weaken at the beginning of 2010, the Company began a strategy of moving its cash holdings from the US dollar into the Euro, particularly with regards to its equity contribution for the Certej project financing. The Company now holds approximately €40 million which has exacerbated the foreign exchange movement to which it is exposed. Since the end of Q2 2010, a weaker US Dollar has reversed a significant portion of the Q2 foreign exchange loss.
- Hellas Gold's administrative and overhead expenses amounted to \$5.38 million in the first half of 2010 and \$4.11 million in Q2 2010 compared to \$2.77 million and \$1.62 million, respectively, for the same periods of 2009, primarily as a result of once-off costs relating to the reparation of installations and dwellings, which were damaged due to an extreme rainfall event during the first half of the 2010. An insurance claim has been made and may allow these costs to be credited at a later date.
- Hellas Gold incurred an expense of \$2.03 million in the first half of 2010 and \$1.14 million in Q2 2010, compared to \$1.77 million and \$0.81 million, respectively, for the same periods of 2009, for ongoing water pumping and treatment at its non-operating mines of Olympias and Madem Lakkos backfilling, in compliance with Hellas Gold's commitment to the environment under its contract with the Greek State.
- The Company recorded a income taxes credit of \$1.50 million in the first half of 2010 and \$1.94 million credit in Q2 2010, compared to a charge of \$0.54 million and \$1.08 million, respectively, for the same periods of 2009. The majority of the movements relate to changes in future tax provisions in the Company's subsidiary Hellas Gold.
- The Company recorded a credit of \$0.26 million in the first half of 2010 and a credit of \$0.34 million in Q2 2010 relating to the non-controlling shareholder's interest in Hellas Gold's profit (after tax), compared to a credit of \$0.05 and a charge of \$0.14, respectively for the same periods of 2009.

## 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 CICA 3865: Hedges.

**Lead and Zinc hedging contracts** – As at 30 June 2010, 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 2010 until 31 December 2010 and is cash settled on a monthly basis between the monthly average of the relevant commodity price and the cap and floor price, as applicable. As at 30 June 2010, these contracts had a fair value of \$2,499 (2009 – \$(1,064)), determined by a third 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>Period July 2010 – December 2010</b>		<b>Lead</b>	<b>Zinc</b>
Total Volume	(tonne)	3,000	3,900
Monthly Volume	(tonne)	500	650
Floor Price	(\$/tonne)	2,000	2,000
Cap Price	(\$/tonne)	2,900	2,925

During the six- and three-month period ended 30 June 2010, the Company recorded income relating to its hedging program of \$394 (2009 – \$4,218) and \$394 (2009 - \$1,801).

Given the current maturity profile of the hedge, market expectations and parameters, we expect that the fair value of the existing hedge contracts \$2,499 will be released to net income within the next 6 months.

## Related parties

Aktor S.A (“**Aktor**”) Greece’s largest construction Company owns 5% of Hellas Gold the Company’s 95% owned subsidiary. Aktor is a 100% subsidiary of Ellaktor S.A., which owns 19.4% of the Company’s issued share capital. Aktor, which is deemed a related party, contracts management, technical and engineering services to Hellas Gold.

During the six-month period ended 30 June 2010, Hellas Gold incurred costs of \$17,327 (2009 –\$17,823) and during the three-month period ended 30 June 2010 Hellas Gold incurred costs \$9,238 (2009 - \$8,440) which have been recognised as cost of sales in the statements of profit and loss and capitalised to property, plant and equipment, for services received from Aktor. As at 30 June 2010, Hellas Gold had accounts payable of \$4,659 (2009 – \$7,262) to Aktor. These expenditures were contracted in the normal course of operations and are recorded at the exchange amount agreed by the parties. The terms of the payable is 30 days (2009 – 30 days).

## 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:

<i>(in thousands of US dollars, except per share amounts)</i>	<b>2010 Q2</b>	<b>2010 Q1</b>	<b>2009 Q4</b>	<b>2009 Q3</b>	<b>2009 Q2</b>	<b>2009 Q1</b>	<b>2008 Q4</b>	<b>2008 Q3</b>
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance sheet (end of period)</b>								
Cash	84,978	101,836	113,642	124,112	142,728	153,995	170,296	192,456
Working capital	105,796	129,143	144,899	146,158	171,185	176,319	192,675	208,609
Total assets	724,581	737,871	744,100	749,870	753,196	757,206	766,095	775,369
Non current liabilities	143,971	145,520	145,563	153,882	153,544	154,882	155,727	183,881
<b>Statement of cash flows</b>								
Cash flows from operating activities	(4,320)	(4,275)	(4,589)	2,865	(7,733)	(2,923)	883	(6,421)
Investing activities	(7,737)	(4,251)	(6,851)	(22,793)	(6,167)	(10,674)	(11,672)	(5,030)
- Plant and equipment	(4,996)	(2,513)	(4,101)	(20,649)	(3,450)	(8,953)	(12,998)	(2,971)
- Deferred exploration and development costs	(2,741)	(1,738)	(2,440)	(2,137)	(2,600)	(1,481)	(2,837)	(2,007)
- Other	-	-	(310)	(7)	(117)	(240)	4,163	(52)
Financing activities	113	-	1,692	-	80	558	(10)	-
Effect of foreign exchange on cash	(4,914)	(3,280)	(722)	1,312	2,553	(3,262)	(6,229)	(2,233)
Total movement in cash	(16,858)	(11,806)	(10,470)	(18,616)	(11,267)	(16,301)	(17,028)	(13,384)

As at 30 June 2010, the Company had cash and cash equivalents of \$84.98 million, compared to \$113.64 million as at 31 December 2009, and working capital of \$105.80 million, compared to \$144.90 million as at 31 December 2009. The Company has sufficient capital for its needs until all the permits to construct its new mines are received, at which point additional development capital will be required. The Company is 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.

The decrease in cash and cash equivalents as at 30 June 2010, compared to the balances as at 31 December 2009, resulted primarily from changes in operating cash flow (\$11.01 million), the effect of foreign currency translation on cash (\$8.20 million), capital expenditure in Greece (\$6.71 million), deferred exploration and development costs in Romania (\$2.83 million), deferred exploration and development costs in Greece (\$1.21 million), corporate capital expenditure (\$0.80 million) and deferred exploration costs in Turkey (\$0.44 million), offset by operating cash flow \$2.42 million and proceeds from exercise of share options \$0.11 million.

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

<b>Contractual obligations</b>	<b>Payments due by period</b>				
	<i>(in thousands of US dollars)</i>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>2 – 3 years</b>	<b>4 – 5 years</b>	<b>After 5 years</b>
Operating lease (London office)	1,229	231	633	365	-
Operating lease (Athens office)	828	127	255	255	191
Outotec OT – Processing Plant	420	420	-	-	-
Total contractual obligations	2,477	778	888	620	191

The Company's contractual obligation with Outotec relates to the contract to supply the large technology services for its Skouries project.

In 2010, the Company expects to spend a total of \$43 million in capital expenditures to fund the development of its project portfolio. This amount comprises \$3 million at its existing operation at Stratoni to upgrade the mill and mining equipment, \$15 million at Olympias as part of the refurbishment of the mine and process plant, and \$5 million at Skouries as the Company expects to continue to spend on engineering studies. At Certej, the Company expects to spend \$20 million as it progresses through the final stages of environmental permitting, and advances through the basic and detailed engineering phases. In addition to its capital expenditure programme, the Company expects to spend \$15 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, and \$14 million on corporate administrative and overhead expenses. The Company expects to fund all such costs from existing cash balances and operating cash flow generated from its Hellas Gold operations.

## 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:

Common shares:	182,924,379
Common share options:	4,935,831
Restricted share units:	882,602
Less: Issued to JOE plan	<u>(500,000)</u>
Common shares (fully-diluted):	188,242,812

Preferred shares: Nil

## NON GAAP PERFORMANCE MEASURES

The Company uses certain performance measures in its analysis. Some of these performance measures have no meaning within Canadian GAAP 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 Canadian GAAP.

Cash operating cost per tonne milled is a Non-GAAP measure which the Company uses as a key performance indicator, which reflects the fact that it is a key performance measure that Straton mine management uses to monitor operating performance. The Straton 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 GAAP 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:

<i>(in thousands of US dollars)</i>	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Milled production (dmt)	60,663	47,701	63,345	50,167	60,287	52,984	73,320	63,040
Cash operating cost per tonne milled (€)	110	110	117	116	106	119	109	109
Cash operating cost per tonne milled (\$)	141	151	173	165	144	156	145	164
Cash cost of production	8,553	7,221	10,948	8,288	8,687	8,278	10,609	10,346
Movement in concentrate inventory	157	(109)	(916)	1,080	(175)	(1,300)	368	893
Cash cost of sales - Straton	8,710	7,112	10,032	9,368	8,512	6,978	10,977	11,239
Amortisation and depletion	1,970	1,640	1,601	1,888	2,050	1,473	1,933	1,643
Concentrate transport costs	1,126	1,004	1,833	2,218	2,666	2,423	2,977	1,565
Inventory write-down/adjustments	(109)	-	-	-	(210)	210	952	261
Cost of sales	<u>11,697</u>	<u>9,756</u>	<u>13,466</u>	<u>13,474</u>	<u>13,018</u>	<u>11,084</u>	<u>16,839</u>	<u>14,708</u>

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

### **CRITICAL ACCOUNTING ESTIMATES**

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

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

The proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involved the study geological, geophysical and economic data and the reliance on a number of financial and technical assumptions. The estimates of the reserves may be subject to change based on new information gained subsequent to the initial assessment. This 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. A total of \$1,013 for the half year 30 June 2010 (2009 - \$1,606) and \$598 Q2 2010 (2009 - \$1,005) was charged to the income statement in relation to depletion of mineral properties, which were subject to these estimates. If actual reserves prove to be significantly different from current estimates, a material change to amounts charged to earnings could occur. A total of \$485,618 (31 December 2009 - \$480,995) mineral properties, was stated on the balance sheet that are subject to these estimates now and in the future.

**Long-lived assets** – All long-lived assets and intangibles held and used by the Company are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognised based on the fair value of the assets. Under Canadian GAAP, a fall in metal prices is one of a number of factors in whether long-lived assets are subject to impairment. In such circumstances, management would prepare future cash flow forecasts to establish whether any actual impairment had occurred. These estimates are based on future expectations, and a number of assumptions and judgments made by management, the same as those required for the estimation of reserves. Current metal prices do not suggest there has been any impairment on any of the Company's long-lived assets. If such an impairment were to occur, this could result in a material charge to earnings. A total of \$485,618, (31 December 2009- \$480,995) of mineral properties was stated on the balance sheet that are subject to this estimation process.

Long-lived assets are depreciated against operations using the unit-of-production method over the estimated useful life of the estimated related ore reserves. As stated above, the determination of reserves is dependent upon the reliance on a number of financial and technical assumptions, which may be subject to change. If actual reserves prove to be significantly different from current estimates, a material change to amounts charged to earnings could occur.

**Asset retirement obligation** – The fair value of the liability of an asset retirement obligation is recorded when it is legally incurred and the corresponding increase to the mineral property is depreciated over the life of the mineral property. The future costs of retirement obligations are estimated by management based upon knowledge of the cost of these activities and a number of assumptions and judgments are made by management in their determination. These estimates are regularly reviewed for reasonableness and any changes to the original cost estimate reflected in the asset retirement obligation liability. The liability is adjusted over time to reflect an accretion element considered in the initial measurement at fair value and revisions to the timing or amount of original estimates and drawdowns as asset retirement expenditures are incurred. As at 30 June 2010, the Company had an asset retirement obligation relating to its Straton property in Greece amounting to \$7,131 (31 December 2009 - \$7,068) subject to these estimates. A total of \$305 for Q2 2010 (2009 - \$236) was charged to the income statement in relation to asset retirement obligation, 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.

**Equity-based compensation** – The Company operates a share option plan, an RSU plan and a DPU plan. The Company accounts for equity-based compensation granted under such plans using the fair value method of accounting. Under such method, the cost of equity-based compensation is estimated at fair value and is recognised in the profit and loss statement as an expense, or capitalised to deferred exploration and development costs when the compensation can be attributed to mineral properties. The Company uses the Black-Scholes and Parisian option pricing model to estimate fair values of share options granted, and uses the market price of common shares to determine fair value of RSUs granted and DPUs issued. This cost is recognised over the relevant vesting period for grants to directors, officers and employees, and measured in full at the earlier of performance completed or vesting for grants to non-employees. Any consideration received by the Company on exercise of share options is credited to share capital. In relation to DPUs, the trend of cost charged or credited to income statement relates directly to the fluctuation in the Company's share price. A total of \$4,763 for the first half 2010 (2009 - \$961) and Q2 2010 \$1,128 (Q2 2009 - \$533) was charged to the income statement in relation to equity-based compensation, which were subject to these estimates.

**Future taxes** – The Company uses the asset and liability method of accounting for future income taxes. Under this method, current income taxes are recognised for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognised for temporary differences between the tax and accounting bases of assets and liabilities, calculated using the currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse. Future income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings, which are subject to assumptions on the future tax rates and recoverability of any tax losses. Should these estimates change, the carrying value of income tax assets or liabilities may change, and consequently the charge or credit to the income statement. A total credit of \$1,503 for the first half 2010 (2009 - \$444 charge) and Q2 2010 a credit of \$1,930 (2009 - \$984 charge) to the income statement in relation to future income taxes, which were subject to these estimates.

## SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

**International Financial Reporting Standards (“IFRS”)** - In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that IFRS will replace Canadian GAAP for publicly listed companies, for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011, including comparative figures for the prior years. In April 2008, the AcSB issued for comment its Omnibus Exposure Draft, Adopting IFRS in Canada. Early adoption may be permitted, however it will require exemptive relief on a case by case basis from the Canadian Securities Administrators.

The Company intends to transition to IFRS on 1 January 2011, and will file its first interim financials under IFRS for the quarter ended 31 March 2011. The IFRS compliant financial statements will include reconciliations for the quarter as well as reconciliations as at the 1 January 2010 transition date. The Company has identified four phases to its conversion process:

- Design and planning,
- Detailed assessment and quantification of differences under IFRS
- Implementation
- Post implementation.

### *Design and planning*

During the design and planning phase, the Company focused on ensuring that the correct skills were available and on the longer term planning to ensure the smooth transition to IFRS. This commenced in Q2 2008, when the Company established a project management team which included members of the finance function at the subsidiary level, who were already experienced in the preparation of IFRS accounts. Other team members were provided with IFRS training. In addition, the Company's finance function already had some IFRS experience from the preparation of a detailed reporting pack under IFRS on a quarterly basis for its major shareholders. This IFRS pack includes accounting adjustments for all material differences between IFRS and Canadian GAAP, with the exception of IFRS 1. During Q3 2008, the Company also undertook a preliminary IFRS diagnostic report which included an initial assessment of key accounting areas where IFRS differs to Canadian GAAP and which could possibly have a significant impact on the financial statements. The report also outlined the key systems and processes which would be affected by the conversion process, namely internal control over financial reporting as well as disclosure controls and procedures. Concluding the planning and design phase, the Company also established a preliminary timeline for key milestones and deliverables to be reported to the audit committee on an ongoing basis.

### *Detailed assessment and quantification of differences under IFRS*

In Q4 2008, the Company moved to the next phase of its IFRS conversion process, by initiating an appropriate review and assessment of all accounting differences under IFRS standards, with particular focus on IFRS 1. This included a detailed assessment of all fixed assets throughout the Group to identify assets where a different treatment is required under IFRS. This assessment also identified the following areas where there are potential differences between IFRS and Canadian GAAP which may effect the Company, as described below:

- *Business combinations*

#### *Date of acquisition*

Under IFRS, when shares of the acquirer are issued to the seller as payment of the purchase price, the fair value will be based on the share price on the date that control of the subsidiary was acquired. Canadian GAAP requires the fair value to be based on the announcement date share price.

#### *Acquisition related costs*

Under IFRS, transaction costs are fully expensed on acquisition whereas Canadian GAAP allows these transaction costs to be recognised as part of the acquisition.

### *Minority Interest*

Under IFRS, a non controlling interest is recorded according to its share of the fair value of assets and liabilities of the acquired entity. Minority interest is recorded at the historical carrying value of the assets and liabilities of the acquired entity.

- *Consolidations*

Under IFRS, changes in ownership in interests, after control is obtained and do not result in a loss of control are accounted for as equity transactions, while under Canadian GAAP these changes are accounted for as step acquisitions using purchase accounting.

- *Exploration for and evaluation of mineral resources*

IFRS provides a specialised statement with regards to extractive industry in respect of the exploration for and evaluation of mineral resources, which separately identifies and accounts for pre-exploration, exploration and evaluation and development expenditure and are classified as either tangible or intangible assets according to their nature. Canadian GAAP does not have a single accounting standard for exploration and evaluation activities and there is no requirement either to separately identify and account for pre-exploration, exploration and evaluation and development expenditure, or to separate between tangible and intangible assets.

- *Property, plant and equipment*

Under IFRS, where a component of property, plant and equipment has a significant cost in relation to the cost of the item as a whole, it must be separately depreciated. This policy applies in Canadian GAAP but in practice a higher threshold of materiality is applied.

- *Foreign currency translation*

Under IFRS, the functional currency concept is used to determine the measurement of foreign currency translation. This is based on the currency of the primary economic environment in which the entity operates. In determining foreign currency translations, Canadian GAAP makes use of self-sustaining and integrated operations with a different hierarchy of indicators.

- *Impairment of assets*

Under IFRS, a one-step approach for both testing and measuring impairment, in which discounted cash flows are compared to the carrying values of the assets. Canadian GAAP requires a two-step approach for impairment testing in which the Company must first compare undiscounted cash flows to the carrying value and determine whether an impairment exists. Only if the cash flows are below carrying values, the Company would then be required to discount the cash flows to calculate the impairment.

- *Rehabilitation provisions*

Under IFRS, rehabilitation provisions include both legal and constructive obligations. Canadian GAAP only requires recognition of the liability only once legally bound. The accretion expense under IFRS is presented as an interest expense, whereas Canadian GAAP does not prescribe any presentation for asset retirement obligation accretion. The discount rate under Canadian GAAP is based on the current credit-adjusted, risk free rate for any upward adjustments, and the original credit adjusted risk free rate for downward adjustments. IFRS requires the use of a current pre-tax discount rate which must be updated at the end of reporting period.

- *Share-Based payments*

Canadian GAAP requires that the fair value of share-based awards with graded vesting be recognised on a straight-line basis over the entire vesting period. Under IFRS, each tranche of an award is considered a separate grant with separate vesting dates and each are accounted for separately.

- *Income taxes*

Under IFRS, a deferred tax asset or liability is recognised for exchange loss or gains relating to foreign non-monetary assets and liabilities that are re-measured into functional currency using historical rates. There is no such requirement under Canadian GAAP.

This assessment took place during Q1 2009 and was further developed during the rest of 2009 along with additional in-depth training to members of the project management team as well as attendance of seminars relating to IFRS changeover. This process was extended to the finance departments of the group, in particular looking at the possibilities of converting local accounts and reporting to IFRS. The project team also identified and made an initial assessment of the various elections the Company is required to make with regards to IFRS 1 which was presented to the group auditors BDO Dunwoody LLP Q3 2009.

During Q4 2009, the Company changed its group auditors to Ernst & Young LLP ("E&Y"), and a new IFRS implementation plan was drawn up with them. This new plan was designed to allow the Company to finalise its required elections under IFRS 1 after the 2009 audit under Canadian GAAP had been completed. This also included E&Y performing its own independent work to confirm the Company's assessment process.

During Q1 2010, the Company continued with its plan set out with E&Y in order to meet the objective of establishing opening IFRS balances as at 1 January 2010, which would act as the opening position for the 2010 comparatives to the 2011 financial year for which IFRS reporting.

During Q2, the Company was involved in a roll forward and an impact assessment based on what had been carried out by the Company to date, with the aim of ensuring that all current IFRS updates would be included. This included the quantification of differences. The Company was further involved in training sessions with team members from the Group's subsidiaries as well as meetings with E&Y to provide updates on issues relating to the impact assessment, IFRS 1 choices and exemptions and financial statement disclosures.

The following is a summary based on the timetable agreed with E&Y, with regards to the remainder of 2010:

- Sign off on all technical papers prepared by the Company as well as on IFRS 1 choices and exemptions, including additional financial statement disclosures, by the end of Q3 2010.
- Preparation of skeleton IFRS financials for 2010, in Q3 & Q4 2010.
- A special audit committee meeting is scheduled to be held in Q4 2010, to discuss impact of adopting IFRS and to approve the changes to the accounting policies.
- Ongoing work relating to Group reporting pack modification, as well as IFRS implementation by subsidiaries that have elected to implement IFRS in their jurisdictions.
- Completion of all IFRS work relating to IT and systems by the end of Q4 2010.

The audit committee will continue to be reported to on a timely basis on progress of the implementation process and achievement of the timetable as set out above.

## RISKS AND UNCERTAINTIES

**Current Global Conditions** – Current global financial conditions have been subject to increased volatility and numerous financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations 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 may 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 some of which are not 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, 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.

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.

In the past, 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, which could significantly harm the Company's profitability and reputation.

**Dilution** – The Company may require additional funds to fund exploration and development 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 other factors.

**Foreign country risk** – Any changes in regulations in Greece, Romania or Turkey, or shifts in political attitudes are beyond the Company's control and may adversely affect its business. Exploration and development 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.

Currently 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.

Current economic and fiscal difficulties involving Greece could result in a sovereign debt default and could negatively impact economic, political and social stability. This situation is still uncertain but the IMF and Eurozone member states have finalised a financial support mechanism for Greece. The Company still believes this situation is not specifically or directly relevant to its assets in the country, however it may deteriorate and thus negatively impact the Company.

**Exploration and mining risks** – The business of exploring for minerals and mining involves a high degree of risk. Only a small proportion of the properties that are explored are ultimately developed into producing mines. 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. 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.

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. There can be no assurance that: these estimates will be accurate, mineral reserves, mineral resources or other mineralisation figures will be accurate, or this mineralisation could be mined or processed profitably.

Mineralisation estimates for the Company's properties may require adjustments or downward revisions based upon further exploration or development work or actual production experience. In addition, the grade of ore ultimately mined, if any, may differ from that indicated by drilling results. There can be no assurance that minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in production scale.

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 silver may render portions of the Company's mineralisation uneconomic and result in reduced reported mineralisation. Any material reductions in estimates of mineralisation, or of the Company's ability to extract this mineralisation, could have a material adverse effect on the Company's results of operations or financial condition.

The grade of mineralisation ultimately mined may differ from that indicated by drilling results and such differences could be material. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in geological mineral resources, grades, stripping ratios or recovery rates may affect the economic viability of projects.

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, unavailability of materials and equipment including fuel, labour force disruptions, unanticipated or significant changes in the costs of supplies including, but not limited to, petroleum, and unanticipated transportation costs.

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.

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 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 exploration and development and would have a material adverse effect on the financial position of the Company.

**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

**Financing risks** – Exploration and development of one or more of the Company's properties will be dependent upon the Company's 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, 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 obtain such additional financing could result in delay or indefinite postponement of further exploration and development of the Company's projects with the possible loss of such properties.

### **Market Prices**

- **Mineral and Commodity prices** – The Company's profitability and long-term viability depend, in large part, upon the market price of gold and other metals and minerals produced from the Company's properties. The market price of gold and other metals 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 and other metals in response to any of the above factors.

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

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

- **Interest Rate Fluctuations** – The Company currently has no debt, but as part of its strategy going forward may incur project debt to complete the development of certain of the Company's assets. This would introduce interest rate risk to the Company as its borrowing cost will fluctuate with interest rates over which the Company has no control.
- **Counterparty Credit Risk** - The Company's credit risk is primarily attributable to trade receivables from concentrate sales to our 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 diversifies this risk by selling to a number of different offtakers, however, there is a risk that should these offtakers not perform the Company will not realise its trade receivables. 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.

**Exploration, development, mining and other licences** – The Company's current operations, including further exploration, development and 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. 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.

**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. Title to the properties may be affected by undisclosed and undetected defects.

**Environmental and other regulatory requirements** – The Company's activities are subject to environmental regulations 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. A breach of such legislation 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 exploration and development 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 exploration and development 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 exploration and development 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 exploration, development and/or mining activities and these may be costly to remedy.

Amendments to current laws, regulations and permits governing operations and activities of exploration and development 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.

**Tax matters** – The Company believes that it is, and intends to take all necessary steps to remain, resident solely in Canada for income tax purposes. The Company's tax residency is, however, 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 were to cease to be tax resident in Canada, it would 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, financial condition and results of operations. 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. Loss of any of these people could have a material adverse effect on the Company and its business. The Company has not taken out and does not intend to take out key man insurance in respect of any directors, officer or other employees.

**Joint ventures** – The Company holds (and expects to hold in the future) interests in joint ventures. Joint ventures may involve special risks associated with the possibility that the joint venture partners may (i) have economic or business interests or targets that are inconsistent with ours; (ii) take action contrary to the Company's policies or objectives with respect to their investments, for instance by veto of proposals in respect of joint venture operations; (iii) be unable or unwilling to fulfil their obligations under the joint venture or other agreements; or (iv) experience financial or other difficulties. Any of the foregoing may have a material adverse effect on the Company's results of operations or financial condition. In addition, the termination of certain of these joint venture agreements, if not replaced on similar terms, could have a material adverse effect on the Company's results of operations or financial condition.

**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. 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 exploration, development or construction costs, result in project delays or both.

**Conflicts of Interest** – 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.

**Legal Proceedings** – the Company is a party to the legal proceedings described under the heading "Legal Proceedings". If decided adversely to the Company, these legal proceedings, or others 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 financial condition or operations.

## **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 2010 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 2010. Based upon that evaluation, the Certifying Officers have concluded that the DC&P are adequate and effective for the period ended 30 June 2010.

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 Canadian GAAP.

As of 30 June 2010 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 2010.

During the period ended 30 June 2010, 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.