



Suite 200, Financial Plaza  
204 Lambert Street  
Whitehorse, Yukon  
Canada Y1A 3T2

**EUROPEAN GOLDFIELDS LIMITED**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

NOTICE IS HEREBY GIVEN that an Annual Meeting of shareholders of European Goldfields Limited (the "**Company**") will be held at the offices of Buchanan Communications Ltd, 45 Moorfields, London, England EC2Y 9AE, on **Monday, 15 May 2006** at 2:00 p.m. (London time), for the following purposes:

- (a) to receive the consolidated financial statements of the Company for the financial year ended 31 December 2005, together with the auditors' report thereon;
- (b) to appoint auditors and to authorise the directors of the Company to fix their remuneration;
- (c) to confirm the number of directors of the Company at six;
- (d) to elect directors of the Company; and
- (e) to transact such further or other business as may properly come before the meeting or any adjournment or adjournments thereof.

Enclosed is a copy of the 2005 Annual Report of the Company including the consolidated financial statements and the auditors' report thereon and related management's discussion and analysis, together with the Management Proxy Circular and a form of proxy.

Shareholders who are unable to attend the meeting are requested to read the notes included in the form of proxy enclosed and then to complete, date, sign and mail the enclosed form of proxy in accordance with the instructions set out in the proxy and in the Management Proxy Circular accompanying and forming part of this Notice.

DATED this 31<sup>st</sup> day of March 2006.

BY ORDER OF THE BOARD OF DIRECTORS

François Dupuis  
Secretary

**If you are a non-registered shareholder of the Company and receive these materials through your broker or through another intermediary, please complete and return the materials in accordance with the instructions provided to you by your broker or by the other intermediary. Failure to do so may result in your shares not being eligible to be voted by proxy at the meeting.**





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## EUROPEAN GOLDFIELDS LIMITED

### MANAGEMENT PROXY CIRCULAR

As at 31 March 2006

#### SOLICITATION OF PROXIES

This Management Proxy Circular is provided in connection with the solicitation of proxies by the management of European Goldfields Limited (the "Company") for use at the Annual Meeting of shareholders of the Company to be held on Monday, 15 May 2006 at 2:00 p.m. (London time) (the "Meeting") and any adjournment thereof at the time and place and for the purposes set forth in the accompanying notice of meeting. While it is expected that the solicitation will be primarily by mail, proxies may be solicited personally or by telephone by the directors and regular employees of the Company. All costs of solicitation will be borne by the Company.

#### APPOINTMENT AND REVOCATION OF PROXIES

The individuals named in the accompanying form of proxy are the Chief Executive Officer and the Secretary of the Company. **A shareholder wishing to appoint some other person (who need not be a shareholder) to represent him at the Meeting has the right to do so, either by inserting such person's name in the blank space provided in the form of proxy and striking out the two printed names or by completing another form of proxy.** A proxy will not be valid unless the completed and signed form of proxy is received by Computershare Trust Company of Canada, Proxy Department, 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario, M5J 2Y1, not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time for holding the Meeting or any adjournment thereof, or is delivered to the Chairman of the Meeting prior to the commencement of the Meeting or any adjournment thereof.

A shareholder who has given a proxy may revoke it by an instrument in writing executed by the shareholder or by his attorney authorised in writing or, where the shareholder is a corporation, by a duly authorised officer or attorney of the corporation, and delivered either to the registrar and transfer agent of the Company, Computershare Trust Company of Canada, 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario, M5J 2Y1, or to the registered office of the Company, Suite 200, Financial Plaza, 204 Lambert Street, Whitehorse, Yukon, Canada Y1A 3T2, at any time up to and including the last business day preceding the day of the Meeting, or if adjourned, any reconvening thereof, or to the Chairman of the Meeting on the day of the Meeting or, if adjourned, any reconvening thereof or in any other manner provided by law. A revocation of a proxy does not affect any matter on which a vote has been taken prior to the revocation.

#### INFORMATION FOR BENEFICIAL HOLDERS OF SHARES

The shares owned by many shareholders of the Company are not registered on the records of the Company in the shareholders' own name, but in the name of a securities dealer, bank or other intermediary, or in the name of a clearing agency. Shareholders who do not hold their shares in their own name (referred to in this Management Proxy Circular as "**beneficial holders**") should note that only registered shareholders may vote at the Meeting. A beneficial holder cannot be recognised at the Meeting for the purpose of voting his shares unless he is appointed by the intermediary as a proxyholder.

Applicable regulatory policy requires intermediaries to seek voting instructions from beneficial shareholders. Every intermediary has its own procedures to seek those instructions. Beneficial shareholders should follow those procedures carefully to ensure that their shares are voted at the Meeting.

The majority of brokers in Canada have delegated authority for obtaining instructions from clients to Independent Investor Communications Corp. (“IICC”). IICC typically applies a special sticker to the proxy forms or, alternatively, prepares a separate “voting instruction” form, mails those forms to beneficial holders, and asks beneficial holders to return the proxy or voting instruction forms to IICC. IICC then tabulates the results of all instructions received and provides appropriate instructions for voting at the Meeting. A beneficial shareholder who receives a proxy bearing an IICC sticker or a voting instruction form cannot deposit that proxy or form on the Meeting date to vote common shares at the Meeting. The proxy or form must be returned to IICC in advance of the Meeting in order to allow the shares to be voted by the named proxyholder at the Meeting.

**If you are a beneficial shareholder and wish to vote in person at the Meeting, please contact your broker or agent in advance of the Meeting to determine how you can do so.**

#### **VOTING OF SHARES REPRESENTED BY PROXY AND DISCRETIONARY POWERS**

Shares represented by proxies may be voted by the proxyholder on a show of hands, except where the proxyholder has conflicting instructions from more than one shareholder, in which case such proxyholder will not be entitled to vote on a show of hands. In addition, shares represented by proxies will be voted on any poll. In either case, where a choice with respect to any matter to be acted upon has been specified in the proxy, the shares will be voted or withheld from voting in accordance with the specification so made.

**Shares represented by proxy will be voted for each matter for which no choice has been specified by the shareholder.**

The enclosed form of proxy when properly completed and delivered and not revoked confers discretionary authority upon the person appointed proxy thereunder to vote with respect to amendments or variations of matters identified in the Notice of Meeting, and with respect to other matters which may properly come before the Meeting. In the event that amendments or variations to matters identified in the Notice of Meeting are properly brought before the Meeting or any further or other business is properly brought before the Meeting, it is the intention of the persons designated in the enclosed form of proxy to vote in accordance with their best judgment on such matters or business. At the time of the printing of this Management Proxy Circular, the management of the Company knows of no such amendment, variation or other matter which may be presented to the Meeting.

#### **RECORD DATE AND RIGHT TO VOTE**

The record date for the determination of shareholders entitled to receive notice of the Meeting has been fixed at 31 March 2006.

Every shareholder of record at the close of business on 31 March 2006 who personally attends the Meeting will be entitled to vote at the Meeting or any adjournment(s) thereof, except to the extent that such shareholder has transferred the ownership of any of his shares after 31 March 2006. If the transferee of those shares produces properly endorsed share certificates, or otherwise establishes that he owns the shares, and demands, not later than ten days before the Meeting, that his name be included in the list of shareholders entitled to vote at the Meeting, the transferee will be entitled to vote those shares at the Meeting.

Shareholders who do not hold their shares of the Company in their own name should see the instructions above under the heading “Information for Beneficial Holders of Shares”.

A person duly appointed under an instrument of proxy will be entitled to vote the shares represented thereby only if the proxy is properly completed and delivered in accordance with the requirements set out under the heading "Appointment and Revocation of Proxies" and has not been revoked.

#### **VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF**

As at the date hereof, the Company has issued and outstanding 112,688,708 fully paid and non-assessable common shares, each share carrying the right to one vote. **The Company has no other classes of voting securities.**

To the knowledge of the directors and executive officers of the Company, the only persons or companies who beneficially own, directly or indirectly, or exercise control or direction over shares carrying more than 10% of the voting rights attached to all outstanding shares of the Company are:

<b>Name</b>	<b>No. of Shares</b>	<b>Percentage</b>
Dimitrios Koutras	14,124,074	12.53%
Artemis Investment Management Limited (and subsidiaries)	13,702,909	12.16%

#### **PRESENTATION OF FINANCIAL STATEMENTS**

The consolidated financial statements of the Company for the financial year ended 31 December 2005 and the auditors' report thereon will be presented at the Meeting.

#### **ELECTION OF DIRECTORS**

The Board of Directors presently consists of five directors and it is intended to confirm the number of directors at six and to elect six directors for the ensuing year. The term of office of each of the present directors expires at the Meeting. The persons named below will be presented for election at the Meeting as management's nominees and the persons named in the accompanying form of proxy intend to vote for the election of these nominees. Management does not contemplate that any of these nominees will be unable to serve as a director. Each director elected will hold office until the next annual meeting of shareholders of the Company or until his successor is elected or appointed, unless his office is earlier vacated in accordance with the By-Laws of the Company, or with the provisions of the *Yukon Business Corporations Act*. It is proposed that Timothy Morgan-Wynne's appointment as director become effective on 1 June 2006.

The following table sets forth the names of the nominees for election as directors and of each director whose term of office will continue after the Meeting, their municipality of residence, their current position and office with the Company, their respective principal occupation during the five preceding years, the date on which they were first elected or appointed as a director of the Company, and the number of common shares of the Company or any of its subsidiaries beneficially owned, directly or indirectly, by each of them or over which they exercise control or direction as at the date hereof.

<b>Name, Office and Place of Residence<sup>(1)</sup></b>	<b>Position with the Company (if any) and Principal Occupations during the Five Preceding Years<sup>(1)</sup></b>	<b>Director Since</b>	<b>No. (%) of Shares<sup>(1)</sup></b>
Dimitrios Koutras Director Resident of Athens, Greece	Non-executive Chairman of the Company, November 2004 to date; President & General Manager, Aktor S.A. (a construction company), 1995 to date	November 2004	14,124,074 (12.53%)
David J. Reading Director & Officer Resident of London, England	Chief Executive Officer of the Company, September 2004 to date; General Manager, Exploration, Randgold Resources Limited (a gold mining company), until 2004	October 2004	225,000 (0.20%)
Philip I. Johnson <sup>(2)</sup> Director Resident of Toronto, Ontario, Canada	President, Pinnacle Reefs Ltd. (a management consulting services company for the energy industry), 1988 to date; Vice Chairman of the North South Institute (an institute that develops policy on international economic development and conflict resolution), 2004 to date; Director of Canadian Income Management (CIM) Limited (an investment management company), 2006 to date	May 2004	14,000 (0.01%)
Hon. Robert P. Kaplan <sup>(2)(3)</sup> Director Resident of Toronto, Ontario, Canada	Trustee, H&R REIT (a real-estate investment trust), 1996 to date; Director, Platexco Inc. (a platinum mining company), 1998 to 2000; Director, PetroKazakhstan Inc. (a crude oil production company), 1998 to 2003; Director, Rex Diamond Mining Corporation (a diamond mining company), 1988 to April 2002; Director, Mooney Aerospace Group Ltd. (a general aviation holding company), 2001 to 2003	February 2004	36,100 (0.03%)
Jeffrey O'Leary <sup>(2)</sup> Director Resident of Isleworth, England	Employed by HSBC plc (an investment bank, formerly the Midland Bank), 1985 to 2005 where he was Director Metals & Mining; Director (non-executive), Palladex plc (a gold exploration company), 2004 to date; Director (non-executive), Goldstar Resources NL (a gold exploration company), 2005 to date; Director (non-executive), Moto Goldmines Limited (a gold exploration company), 2005 to date	December 2005	Nil (Nil%)
Timothy M. Morgan-Wynne Proposed Director & Officer Resident of London, England	To be appointed Chief Financial Officer of the Company, as at 1 June 2006; Director of the Resources and Energy Group at HSBC Bank plc and member of HSBC's mining sector corporate finance team, 1997 to date	July 2006	Nil (Nil%)

**NOTES:**

- (1) The information as to country of residence, principal occupation and shares beneficially owned is not within the knowledge of the management of the Company and has been furnished by the respective nominees. The description of the principal occupation or employment for all of the nominees is for the past five years.
- (2) Members of the Audit Committee, the Compensation Committee and the Corporate Governance & Nominating Committee.
- (3) Mr. Kaplan was a director of PetroKazakhstan, Inc. (formerly known as Hurricane Hydrocarbons Ltd), listed on the TSX Venture Exchange, when it sought bankruptcy protection in 1999. The assets of the company consisted solely of crude oil production all of which was sold to a refinery in Kazakhstan. With the 1998-1999 collapse in the world oil prices, the refinery reduced the price it paid for the company's crude, forcing it into bankruptcy protection. It emerged from court protection in mid 2000 following its acquisition of the refinery in March 2000. Mr. Kaplan was a director of Mooney Aerospace Group Limited that sought Chapter 11 protection in July 2004.

## AUDIT COMMITTEE

The disclosure required by Form 52-110F1 relating to the Audit Committee is included in the Company's Annual Information Form for the year ended 31 December 2005, filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

### Compensation of Named Executive Officers

The following table sets forth certain compensation information for the Chief Executive Officer of the Company, the Chief Financial Officer of the Company, the Vice President, Corporate Development, General Counsel & Secretary of the Company, the General Manager of Hellas Gold S.A. and the Managing Director of Deva Gold S.A. (together, the "Named Executive Officers") during the financial years ended 31 December 2005, 31 December 2004 and 31 December 2003. This information includes the Canadian dollar value of base salaries, bonus awards and long-term incentive plan payments, the number of options granted, and certain other compensation, if any, whether paid or deferred.

There were no other executive officers of the Company and its subsidiaries whose total salary and bonus exceeded C\$150,000 during the financial year ended 31 December 2005.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Long-term Compensation			
		Salary (C\$)	Bonus (C\$)	Other Annual Compensation (C\$)	Awards	Payouts	All Other Compensation (C\$)	
					Common Shares under Option Granted (#)	Restricted Share Units (RSUs) Granted (#)	Long-term Incentive Plan Payouts (C\$)	
David Reading Chief Executive Officer	2005	273,000 <sup>(4)</sup>	Nil	132,000 <sup>(4) (5)</sup>	260,000	950,000 <sup>(6)</sup>	Nil	Nil
	2004 <sup>(1)</sup>	77,000 <sup>(4)</sup>	209,000 <sup>(4)</sup>	7,000 <sup>(4) (5)</sup>	500,000	Nil	184,000 <sup>(8)</sup>	386,000 <sup>(4) (9)</sup>
David Grannell Chief Financial Officer	2005	275,000 <sup>(4)</sup>	Nil	29,000 <sup>(4) (5)</sup>	200,000	65,000 <sup>(7)</sup>	Nil	Nil
	2004	231,000 <sup>(4)</sup>	93,000 <sup>(4)</sup>	Nil	225,000	Nil	720,000 <sup>(8)</sup>	479,000 <sup>(4) (10)</sup>
	2003 <sup>(2)</sup>	61,000 <sup>(4)</sup>	17,000 <sup>(4)</sup>	Nil	175,000	Nil	Nil	Nil
François Dupuis VP Corporate Development, General Counsel & Secretary	2005	264,000 <sup>(4)</sup>	54,000 <sup>(4)</sup>	29,000 <sup>(4) (5)</sup>	160,000	65,000 <sup>(7)</sup>	Nil	Nil
	2004 <sup>(3)</sup>	162,000 <sup>(4)</sup>	128,000 <sup>(4)</sup>	10,000 <sup>(4) (5)</sup>	240,000	Nil	450,000 <sup>(8)</sup>	172,000 <sup>(4) (10)</sup>

#### NOTES:

- (1) Mr. Reading was appointed Chief Executive Officer in September 2004.
- (2) Mr. Grannell was appointed Chief Financial Officer in August 2003 and resigned on 31 March 2006.
- (3) Mr. Dupuis was appointed Vice President, Corporate Development, General Counsel & Secretary in July 2004.
- (4) Converted to Canadian dollars from British Pounds Sterling at the exchange rate prevailing on 31 December of the relevant year.
- (5) Indicates contributions made by the Company to private pension schemes and to private medical insurance schemes, permanent health insurance schemes and life assurance schemes. For Mr. Reading, includes a housing allowance of £50,000 (C\$100,000) per year.

- (6) Redeemable for an equal number of common shares of the Company pursuant to the following vesting schedule: 200,000 RSUs on 31 December 2005, 400,000 RSUs on 31 December 2006 and 350,000 RSUs on 31 December 2007. The RSUs vesting in 2005 were issued in recognition of milestones achieved during the year, including the building of a new management and technical team, the commencement of production at Stratoni and the completion of an in-house pre-feasibility at Certej.
- (7) Redeemable for an equal number of common shares of the Company pursuant to the following vesting schedule: 65,000 RSUs on 31 December 2005. The RSUs vesting in 2005 were issued in recognition of milestones achieved during the year.
- (8) Indicates the restricted fair market value of common shares issued by the Company under its previous Milestone Share Compensation Plan. Milestones for which common shares were issued in the financial year ended 31 December 2004 include (i) the listing in March 2004 of the Company's common shares on the AIM Market of the London Stock Exchange, (ii) the acquisition in February 2004 of an initial 30% interest in Hellas Gold S.A. and related financing, and (iii) the acquisition in November 2004 of an additional 35% interest in Hellas Gold S.A. and related financing.
- (9) Includes (i) UK income tax and social insurance contributions paid by the Company on behalf of Mr. Reading with respect to common shares issued by the Company under its previous Milestone Share Compensation Plan (C\$127,000), (ii) relocation and temporary accommodation expenses incurred by the Company (C\$131,000), and (iii) a payment of US\$100,000 (C\$128,000) made by the Company on behalf of Mr. Reading to his former employer, as consideration for the release of Mr. Reading's obligations under a non-competition undertaking.
- (10) Includes UK income tax and social insurance contributions paid by the Company on behalf of the relevant Named Executive Officer with respect to common shares issued by the Company under its previous Milestone Share Compensation Plan.

#### *Share Options and Restricted Share Units Granted to Named Executive Officers*

The following table sets forth the particulars of share options and Restricted Share Units ("RSUs") granted to the Named Executive Officers under the Company's Share Option Plan and Restricted Share Unit Plan (both described below) during the financial year ended 31 December 2005.

#### **Share Options and RSUs Granted during the Financial Year Ended 31 December 2005**

<b>Named Executive Officers</b>	<b>Common Shares under Option<sup>(1)</sup> / RSUs Granted (#)</b>	<b>Percentage of Net Total Options / RSUs Granted in Financial Year (%)</b>	<b>Exercise Price of Options (C\$/Security)</b>	<b>Weighted Average Trading Price of Common Shares Underlying Options Five Days Prior to the Grant (C\$/Security)</b>	<b>Expiration Date of Options</b>
David Reading	260,000 / 950,000 <sup>(2)</sup>	16% / 81%	2.00	2.00	30 June 2010
David Grannell	200,000 / 65,000 <sup>(3)</sup>	12% / 6%	2.00	2.00	30 June 2010
François Dupuis	160,000 / 65,000 <sup>(3)</sup>	10% / 6%	2.00	2.00	30 June 2010

#### NOTES:

- (1) Two thirds of the share options granted to the Named Executive Officers during the financial year ended 31 December 2005 were vested as at 31 December 2005. The remainder of such share options vest on 30 June 2006.
- (2) Redeemable for an equal number of common shares of the Company pursuant to the following vesting schedule: 200,000 RSUs on 31 December 2005, 400,000 RSUs on 31 December 2006 and 350,000 RSUs on 31 December 2007. The RSUs vesting in 2005 were issued in recognition of milestones achieved during the year, including the building of a new management and technical team, the commencement of production at Stratoni and the completion of an in-house pre-feasibility at Certej.
- (3) Redeemable for an equal number of common shares of the Company pursuant to the following vesting schedule: 65,000 RSUs on 31 December 2005. The RSUs vesting in 2005 were issued in recognition of milestones achieved during the year.

The following table sets forth the particulars of share options exercised by the Named Executive Officers and RSUs vested in favour of the Named Executive Officers pursuant to the Company's Share Option Plan and Restricted Share Unit Plan during the financial year ended 31 December 2005, together with the values of unexercised share options and unvested RSUs granted to the Named Executive Officers as at 31 December 2005.

**Share Options Exercised and RSUs Vested during the Financial Year Ended 31 December 2005**  
**Share Option and RSU Values as at 31 December 2005**

Named Executive Officers	Common Shares Acquired on Exercise of Options / Vesting of RSUs (#)	Aggregate Value Realised on Exercise of Options / Vesting of RSUs (C\$)	Unexercised Options at 31 December 2005 (#) Exercisable / Unexercisable	Value of Unexercised in-the-Money Options <sup>(2)</sup> (\$) Exercisable / Unexercisable	Unvested RSUs (#)	Value of Unvested RSUs (C\$)
David Reading	Nil / 200,000 <sup>(1)</sup>	Nil / 450,000 <sup>(2)</sup>	673,334 / 86,666	43,336 / 21,667	750,000 <sup>(3)</sup>	1,687,500 <sup>(2)</sup>
David Grannell	Nil / 65,000 <sup>(1)</sup>	Nil / 146,250 <sup>(2)</sup>	533,334 / 66,666	33,334 / 16,667	Nil	Nil
François Dupuis	Nil / 65,000 <sup>(1)</sup>	Nil / 146,250 <sup>(2)</sup>	346,667 / 53,333	26,667 / 13,333	Nil	Nil

**NOTES:**

- (1) Common shares issued pursuant to the vesting of an equal number of RSUs on 31 December 2005.  
(2) At C\$2.25 per share, being the closing price of the common shares of the Company on the Toronto Stock Exchange on 31 December 2005.  
(3) Redeemable for an equal number of common shares of the Company pursuant to the following vesting schedule: 400,000 RSUs on 31 December 2006 and 350,000 RSUs on 31 December 2007.

*Compensation of Non-executive Directors*

The compensation policy for directors provides that directors who are neither employees nor consultants of the Company and its subsidiaries (the "**Non-executive Directors**") shall receive £16,500 (C\$33,000) per year as a retainer fee.

During the financial year ended 31 December 2005, the Non-executive Directors were paid the following directors' fees:

- Glenn Featherby: £16,500 (C\$33,000)
- Philip Johnson: £16,500 (C\$33,000)
- Hon. Robert Kaplan: £16,500 (C\$33,000)
- Dimitrios Koutras: £Nil (C\$Nil)
- Jeffrey O'Leary: £1,000 (C\$2,000)

During the financial year ended 31 December 2005, the Company had no pension plan or other arrangement for cash or non-cash compensation to the Non-executive Directors, except pursuant to the Company's Share Option Plan and Restricted Share Unit Plan (both described below).

The following table sets forth the particulars of share options and RSUs granted to the Non-executive Directors under the Company's Share Option Plan and Restricted Share Unit Plan during the financial year ended 31 December 2005.

## Share Options and RSUs Granted during the Financial Year Ended 31 December 2005

Name of Non-executive Directors	Common Shares under Option <sup>(1)</sup> / RSUs Granted (#)	Percentage of Net Total Options / RSUs Granted in Financial Year (%)	Exercise Price of Options (C\$/Security)	Weighted Average Trading Price of Common Shares Underlying Options Five Days Prior to the Grant (C\$/Security)	Expiration Date of Options
Glenn Featherby	50,000 / Nil	3% / -	2.00	2.00	30 June 2010
Philip Johnson	50,000 / Nil	3% / -	2.00	2.00	30 June 2010
Hon. Robert Kaplan	50,000 / Nil	3% / -	2.00	2.00	30 June 2010
Dimitrios Koutras	Nil / Nil	- / -	-	-	-
Jeffrey O'Leary	150,000 / Nil	9% / -	2.40	2.40	1 December 2010

**NOTE:**

(1) Two thirds of the share options granted to the Non-executive Directors (except Jeffrey O'Leary) during the year ended 31 December 2005 were vested as at 31 December 2005. The remainder of such share options vest on 30 June 2006. Share options granted to Jeffrey O'Leary vest in three equal tranches on 1 June 2006, 1 December 2006 and 1 June 2007.

The following table sets forth the particulars of share options exercised by the Non-executive Directors and RSUs vested in favour of the Non-executive Directors pursuant to the Company's Share Option Plan and Restricted Share Unit Plan during the financial year ended 31 December 2005, together with the values of unexercised share options and unvested RSUs granted to the Non-executive Directors as at 31 December 2005.

## Share Options Exercised and RSUs Vested during the Financial Year Ended 31 December 2005 Share Option and RSU Values as at 31 December 2005

Named Executive Officers	Common Shares Acquired on Exercise of Options / Vesting of RSUs (#)	Aggregate Value Realised on Exercise of Options / Vesting of RSUs (C\$)	Unexercised Options at 31 December 2005 (#) Exercisable / Unexercisable	Value of Unexercised in-the-Money Options <sup>(1)</sup> (\$) Exercisable / Unexercisable	Unvested RSUs (#)	Value of Unvested RSUs (C\$)
Glenn Featherby	Nil / Nil	Nil / Nil	283,334 / Nil	8,334 / Nil	Nil	Nil
Philip Johnson	Nil / Nil <sup>(1)</sup>	Nil / Nil	283,334 / 16,666	8,334 / 4,167	Nil	Nil
Hon. Robert Kaplan	Nil / Nil	Nil / Nil	283,334 / 16,666	8,334 / 4,167	Nil	Nil
Dimitrios Koutras	Nil / Nil	Nil / Nil	Nil / Nil	Nil / Nil	Nil	Nil
Jeffrey O'Leary	Nil / Nil	Nil / Nil	Nil / 150,000	Nil / Nil	Nil	Nil

**NOTE:**

(1) At C\$2.25 per share, being the closing price of the common shares of the Company on the Toronto Stock Exchange on 31 December 2005.

### *Termination of Employment, Change in Responsibilities and Employment Contracts*

The Company has entered into Service Agreements with each of the Named Executive Officers whereby they agreed to provide their full-time services to the Company and its subsidiaries. David Grannell resigned as Chief Financial Officer on 31 March 2006 and will be replaced by Timothy Morgan-Wynne on 1 June 2006. The principal terms of the Service Agreements with the Named Executive Officers are as follows:

- (a) each of the service agreements with David Reading, David Grannell and François Dupuis is terminable by either party on not less than twelve months' written notice (David Reading) or six months' written notice (David Grannell and François Dupuis). In the event of a change of control or a sale of the majority of the Company's assets and in the event that notice to terminate the Service Agreement is given within six months, David Reading, David Grannell and François Dupuis is entitled to a termination payment equal to 18 months salary and benefits, together with unpaid salary and holiday pay;
- (b) each of the Named Executive Officers is entitled to private medical expenses insurance providing cover for the relevant executive officer, his spouse and dependent children and shall be entitled to participate in any permanent health or life insurance scheme operated by the Company;
- (c) as at 31 December 2005, each of David Reading, David Grannell and François Dupuis was entitled to receive an annual salary of £165,000 (C\$330,000), £137,500 (C\$275,000) and £132,000 (C\$264,000) respectively, together with:
  - (i) a discretionary annual bonus subject to the approval of the Compensation Committee of the Board of Directors; and
  - (ii) 30 days annual holiday in addition to statutory holidays;
- (d) as at 31 December 2005, David Reading was entitled to receive an annual housing allowance of £30,000 (C\$60,000) (net of taxes);
- (e) for a period of six months after the date of termination of his employment less any time spent on garden leave, each of the Named Executive Officers is prohibited from:
  - (i) being engaged, concerned or interested in any business which at any time within the 12 months prior to termination has carried out the activities of mining of precious metals and/or exploration thereof or has investigated new business opportunities in the same countries where the Company and its subsidiaries (the "**Group**") have carried out such activities within such 12-month period;
  - (ii) soliciting or endeavouring to solicit or induce any key officer or manager or executive of the Group from leaving the employment of the Group; and
  - (iii) employing or engaging any key officer or manager or executive of the Group in connection with any business in or proposing to be in competition with the Group.

### *Pension Arrangements*

The Company and its subsidiaries do not have any pension arrangements in place for the directors and the Named Executive Officers. As at 31 December 2005, no amounts had been set aside for pensions and retirement benefits for directors and Named Executive Officers.

### *Share Option Plan*

*Eligibility* – The Company operates a Share Option Plan (together with its predecessor, the “**Share Option Plan**”) authorising the directors to grant from time to time options to acquire common shares of the Company to Eligible Persons. “**Eligible Person**” means, at the effective date of grant (i) any director, employee or consultant of the Company or any of its subsidiary companies and (ii) except in relation to a consultant which is a company, any company that is wholly-owned by any such director, employee or consultant.

*Shares subject to Share Option Plan* – As approved at the last Annual Meeting of the shareholders of the Company held on 9 June 2005, the maximum number of common shares of the Company which may be reserved for issuance for all purposes under the Share Option Plan shall not exceed 15% of the common shares issued and outstanding from time to time, unless the Share Option Plan is amended pursuant to and in accordance with the rules and policies of the Toronto Stock Exchange (the “**Stock Exchange Policies**”). The number of common shares of the Company in respect of which options may be granted pursuant to the Share Option Plan may be increased, decreased or fixed by the Board of Directors, as permitted by applicable Stock Exchange Policies and, if required thereby, upon approval of the same by the shareholders.

*Limitation of options to any one person* – Unless permitted by the Toronto Stock Exchange (the “**Stock Exchange**”), and, if required thereby or by applicable Stock Exchange Policies, approval by the shareholders is obtained, the maximum number of common shares of the Company which may be reserved for issuance to any one person pursuant to options issued under the Share Option Plan, in a 12-month period, may not exceed 5% of the common shares of the Company outstanding at the effective date of grant.

In addition, unless permitted by the Stock Exchange and, if required thereby or by applicable Stock Exchange Policies, approval by the shareholders is obtained, the maximum number of common shares of the Company which may be issued to any person under the Share Option Plan and under the Company’s previously established and outstanding share option plan or grants, within a 12-month period, may not exceed 5% of the common shares of the Company outstanding at the effective date of grant.

*Grants to consultants* – The aggregate number of options granted to any one consultant in a 12-month period must not exceed 2% of the common shares of the Company outstanding at the effective date of grant.

*Grants to persons providing investor relations activities* – The aggregate number of options granted to persons employed to provide investor relations activities must not exceed 2% of the issued shares of the Company in any 12-month period, calculated at the effective date of grant. Options issued to Consultants performing investor relations activities must vest over a period of not less than 12 months with no more than  $\frac{1}{4}$  of the options vesting in any 3-month period.

*Options to insiders* – Unless permitted by the Stock Exchange and, if required thereby or by applicable Stock Exchange Policies, approval by the shareholders is obtained:

- (a) the aggregate number of common shares of the Company which may be reserved for issuance at any time under share options granted to insiders under the Share Option Plan and under the Company's previously established and outstanding share option plan or grants may not exceed 10% of the issued shares; and
- (b) the number of common shares of the Company which may be issued and the number of options that may be granted to insiders under the Share Option Plan and under the Company's previously established and outstanding share option plan or grants, within a 12 month, period may not exceed 10% of the issued shares;

in each case, calculated in accordance with applicable Stock Exchange Policies.

*Exercise Price* – The Board of Directors shall establish the amount payable per common share of the Company on the exercise of an option (the "**Exercise Price**") at the time such option is granted, which shall in all cases not be less than the lowest price permitted under applicable Stock Exchange Policies.

*Term of option* – Each option will expire on the date determined by the Board of Directors and specified in the option agreement pursuant to which such option is granted, provided such date may not be later than the earlier of (i) the date which is the tenth anniversary of the date on which such option is granted, and (ii) the latest date permitted under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchange.

*Vesting* – Subject to applicable Stock Exchange Policies, the Board of Directors may determine when any option will become exercisable and may determine that the option shall be exercisable in installments. Without restricting the authority of the Board of Directors in respect of the terms of the options, subject to applicable Stock Exchange Policies, the Board of Directors may, at its discretion, in respect of any such option, provide that the right to exercise such option will vest in installments over the life of the option, with the option being fully-exercisable only when such required time period or periods have elapsed. Subject to the foregoing, each Eligible Person to whom or which options have been granted (a "**Participant**"), upon becoming entitled to exercise the option in respect of any common shares of the Company in accordance with the option agreement, shall be entitled to exercise the option to purchase such common shares at any time prior to the expiration or other termination of the option.

*Termination for reason other than death or for cause* – Except as otherwise determined by the Board of Directors, if a Participant ceases to be an Eligible Person for any reason whatsoever other than death or the termination of the Participant for cause, each option held by the Participant will cease to be exercisable on the earlier of 12 months after the date on which a Participant ceases to be an Eligible Person (the "**Termination Date**") or the original expiry date of the option agreement. If any portion of an option is not vested by the Termination Date, that portion of the option may not under any circumstances be exercised by the Participant.

*Termination for cause* – If a Participant ceases to be an Eligible Person for cause such Participant's options whether vested or not vested at the Termination Date will immediately terminate with respect to exercise of the same. If the Participant has an employment or consulting agreement with the Company, the term "cause" shall have the meaning given to it in the employment or consulting agreement.

*Termination upon death* – Except as otherwise determined by the Board of Directors, if a Participant dies prior to ceasing to be an Eligible Person, the personal representative, heirs or administrators of the Participant may exercise the Participant's options until the earlier of 12 months after the date of the Participant's death or the original expiry date of the option but only to the extent the options were by their terms exercisable on the date of death.

*Extension of Exercise Period* – Notwithstanding the above provisions, the Board of Directors may, subject to approval of the Stock Exchange at any time prior to the expiry of an option extend the period of time within which an option may be exercised by a Participant who has ceased to be an Eligible Person, but such extension will not be granted beyond the original expiry date of the option.

*Status of terminated options* – Any common shares of the Company subject to an option which for any reason is cancelled or terminated without having been exercised, shall be returned to the Share Option Plan and will be eligible for re-issue.

*Options non-transferable* – Options shall not be transferable or assignable by the Participant otherwise than by will or the laws of descent and distribution, and shall be exercisable during the lifetime of a Participant only by the Participant and after death only by the Participant's personal representative, heirs or administrators and only in accordance with the terms of the Share Option Plan described herein.

*Further adjustments* – Subject to the provisions of the Share Option Plan described herein and applicable Stock Exchange Policies, if, because of a proposed merger, amalgamation or other corporate arrangement or reorganisation, the exchange or replacement of common shares of the Company for those in another corporation is imminent, the Board of Directors may, in a fair and equitable manner, determine the manner in which all unexercised option rights granted under the Share Option Plan will be treated including, without limitation, requiring the acceleration of the time for the exercise of such rights by the Participants, the time for the fulfillment of any conditions or restrictions on such exercise, and the time for the expiry of such rights.

*Third party offer* – If an offer to purchase all of the outstanding common shares of the Company is made by a third party, the Board of Directors may, to the extent permitted by applicable Stock Exchange Policies and upon giving each Participant written notice to that effect, require the acceleration of the time for the exercise of option rights granted under the Share Option Plan, the time for the fulfillment of any conditions or restrictions on such exercise, and the time for the expiry of such rights.

*Change in Control* – In the event of a Change in Control, the Board of Directors may accelerate the time for the fulfillment of any conditions or restrictions for the exercise of option rights granted under the Share Option Plan. "**Change in Control**" means and will be deemed to have occurred if any individual, corporation, partnership, trust or association is or becomes the beneficial owner, directly or indirectly, of voting securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding voting securities.

*Amendment and termination of Share Option Plan* – The Board of Directors reserves the right, in its absolute discretion, to at any time amend, modify or terminate the Share Option Plan with respect to all options which have not yet been granted hereunder. Any amendment to any provision of the Share Option Plan will be subject to any necessary approval of the Stock Exchange and, if required by applicable Stock Exchange Policies, approval by the shareholders. If the Share Option Plan is terminated, the provisions of the Share Option Plan and any administrative guidelines, and other rules and regulations adopted by the Board of Directors and in force at the time of the Share Option Plan shall continue in effect during such time as an option or any rights pursuant thereto remain outstanding.

*Amendment of outstanding options* – Subject to (i) the requirements and the approval of the Stock Exchange; and (ii) if required, approval by the shareholders, the Board of Directors may amend or modify in any manner an outstanding option to the extent that the Board of Directors would have had the authority to initially grant such award as so modified or amended, including without limitation, to change the date or dates as of which an option becomes exercisable, except that no amendment will, without the written consent of all affected optionees, alter or impair any option previously granted under the Share Option Plan unless as a result of a change of applicable Stock Exchange Policies or the Company's status or classification thereon. The Exercise Price of any option granted to an insider of the Company may not be reduced unless the Company obtains first the approval by the disinterested shareholders.

*Amendment to Exercise Price* – The Exercise Price of an option may be amended only if at least six months have elapsed since the later of the date of commencement of the term of the option or the date of the last amendment to the Exercise Price.

*Amendment to term* – An option must be outstanding for at least one year before the Company may extend its term.

*Outstanding options* – As at the date hereof, options to purchase 4,017,667 common shares are outstanding (of which 2,865,000 are fully vested), representing 3.57% of the Company's issued and outstanding common shares. Outstanding options have a weighted average exercise price of C\$2.83 per share.

*Option movements in 2005* – During the financial year ended 31 December 2005, a total of 1,626,000 share options were granted to directors, officers, employees and consultants of the Company and its subsidiaries at a weighted average exercise price of C\$2.04 per share, 75,000 share options were exercised and 881,667 were cancelled under the Share Option Plan.

#### *Restricted Share Unit Plan*

As approved at the last Annual Meeting of the shareholders of the Company held on 9 June 2005, the Company operates a restricted share unit plan (the “**Restricted Share Unit Plan**”) which provides for the issuance of RSUs to directors, officers, employees and consultants. RSUs are “phantom” shares that rise and fall in value based on the value of the Company's common shares and are redeemed for actual common shares on the vesting dates determined by the Board of Directors when the RSUs are granted. Under the terms of the Restricted Share Unit Plan, accelerated vesting occurs on involuntary termination, retirement, death, permanent disability or a change of control of the Company.

The maximum number of common shares of the Company which may be reserved for issuance for all purposes under the Restricted Share Unit Plan shall not exceed 2.5% of the common shares issued and outstanding from time to time.

As at the date hereof, 490,000 RSUs have vested and 850,000 RSUs are outstanding, representing 0.75% of the Company's issued and outstanding common shares.

## SECURITIES AUTHORISED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth information with respect to compensation plans under which equity securities of the Company are authorised for issuance as at 31 December 2005.

### Equity Compensation Plan Information as at 31 December 2005

Plan Category	Number of Common Shares to be Issued upon Exercise / Vesting of Outstanding Options / RSUs (#)	Weighted Average Exercise Price of Outstanding Options (C\$)	Number of Common Shares Remaining Available for Future Issuance under Share Option Plan / RSU Plan (#)
<b>Equity compensation plans approved by securityholders</b>	-	-	-
Share Option Plan	4,684,000 <sup>(1)</sup>	2.58	15,154,806 <sup>(2)</sup>
Restricted Share Unit Plan	750,000 <sup>(3)</sup>	-	2,389,967 <sup>(4)</sup>
<b>Equity compensation plans not approved by securityholders</b>	N/A	N/A	N/A
<b>Total</b>	<b>5,434,000<sup>(5)</sup></b>	<b>2.58</b>	<b>17,544,773</b>

#### NOTES:

- (1) Representing 4.2% of the Company's issued and outstanding common shares as at 31 December 2005.
- (2) Based on 112,598,708 common shares of the Company issued and outstanding as at 31 December 2005. The maximum number of common shares of the Company which may be reserved for issuance for all purposes under the Share Option Plan shall not exceed 15% of the common shares issued and outstanding from time to time.
- (3) Representing 0.7% of the Company's issued and outstanding common shares as at 31 December 2005. In addition, 425,000 common shares of the Company were issued on 31 December 2005 pursuant to the vesting of outstanding RSUs.
- (4) Based on 112,598,708 common shares of the Company issued and outstanding as at 31 December 2005. The maximum number of common shares of the Company which may be reserved for issuance for all purposes under the Restricted Share Unit Plan shall not exceed 2.5% of the common shares issued and outstanding from time to time.
- (5) Representing 4.8% of the Company's issued and outstanding common shares as at 31 December 2005.

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the aggregate indebtedness to the Company or any of its subsidiaries (and to another entity if the indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries) of all executive officers, directors, employees and former executive officers, directors and employees of the Company or any of its subsidiaries outstanding as at the date hereof.

### Table of Indebtedness of Directors and Executive Officers

Purpose	Aggregate Indebtedness (\$)	
	To the Company or its Subsidiaries	To Another Entity
Share purchases	Nil	Nil
Other	Nil	Nil

## COMPOSITION OF COMPENSATION COMMITTEE

The Board of Directors has constituted a Compensation Committee (the “**Compensation Committee**”) which was comprised of the following independent directors during the financial year ended 31 December 2005: Glenn Featherby, Philip Johnson and Hon. Robert Kaplan.

## REPORT ON EXECUTIVE COMPENSATION

### *Compensation policy and objectives*

The Company’s compensation policy is based on a strong “pay-for-performance” culture, where rewards are directly linked to the achievement of strategic milestones and to the Company’s share price appreciation. Its objectives are to:

- recruit, develop and retain highly talented entrepreneurial and top performing individuals;
- reward members of the management team who made a significant contribution to the achievement of the Company’s objectives and strategic milestones;
- align the interests of the Company’s management to its strategy and the interest of its shareholders;
- motivate and allow for effective and consistent performance through the retention of key resources; and
- ensure competitive total compensation packages when compared to those of relevant peer groups in the various markets in which the Company operates;

taking into account that the Company is a relatively small-sized mining company, which operates in Europe with its principal office in London, England.

The Company’s compensation program is designed so as to constitute adequate reward for services and incentive for the management team to implement both short-term and long-term strategies aimed at increasing share value and creating economic value.

### Total compensation components

The Company's total compensation program has five components: base salary, annual bonus, equity-based mid-term and long-term incentives, and benefits. The following table summarises each component of the Company's compensation program:

Component	Form	Applies To	Perform Period	Determination
Base salary	Cash	All employees	1 year	Based on market <sup>(1)</sup> , individual performance and internal equity
Annual bonus	Cash	All employees	1 year	Target award based on market <sup>(1)</sup> ; actual award based on achievement of strategic, operational and/or individual objectives
Mid-term incentive	Restricted share units	Management employees	Up to 3 years	Annual award based on the achievement of the Company's objectives and strategic milestones, individual performance and internal equity; final payout value based on share price
Long-term incentive	Share options	All employees	Up to 5 years	Annual award based on the achievement of the Company's objectives and strategic milestones, individual performance and internal equity; final payout value based on share price
Benefits	Company contribution representing 4% of base salary into employee's private medical insurance, permanent health insurance and/or life assurance schemes  Company contribution representing up to 10% of base salary into employee's private pension scheme	All employees of parent company	Ongoing	Based on market <sup>(1)</sup>
Pension plan	None	N/A	N/A	N/A

**Note:**

(1) To determine market practice, an external survey was conducted in March 2006 for the following components of the Company's compensation program: base salary, annual bonus and benefits.

### *Pay mix*

Although a competitive base salary remains a key component of the Company's pay mix, incentive compensation, which includes distinct annual, mid-term and long-term elements, represents the most important portion of the Company's executive compensation policy, with a higher emphasis on the mid-term and long-term components.

### *Peer groups and market positioning*

The Company is a European-based organisation with its principal office in London, England. Market competitiveness of the Company's compensation program, and each of its elements, is assessed relative to an appropriate group of peer companies with comparable size, market capitalisation, stage of development, scope and geographic spread of operations. The appropriate peer group consists of a mix of 27 UK, US and Canadian-based companies in the mining industry.

The Company aims to provide base salaries and benefits targeted at below the median of the appropriate peer group as well as incentives designed to bring total compensation above average of the appropriate peer group upon the achievement of superior results.

### *Base salary*

Base salary is the remuneration for performing duties related to a given position and reflects the holder's expected performance over the long term. Base salaries are determined relative to salaries for comparable roles in the appropriate peer group, the individual's performance in the role and internal equity. In order to recruit the right individuals, base salaries are also determined based on the individuals' former pay package. The Compensation Committee reviews and approves the salary ranges and individual salary increases for all officers. It also reviews and approves the salary ranges and aggregate salary increases for all other employees. Annual salary increases take into account both present and past performance.

### *Annual bonus*

The Company's annual bonus plan provides the Company's employees with an opportunity to earn cash incentives based on the achievement of pre-established strategic, operational and/or individual performance objectives during a given year.

A target bonus opportunity is determined based on the competitiveness with target bonus opportunities for comparable roles in the appropriate peer group.

On a yearly basis, the Compensation Committee approves the objectives for the coming year, assesses their level of achievement for the year and approves the corresponding bonus payouts.

### *Mid-term and long-term incentive plans*

The Company's mid-term and long-term incentive plans are designed to:

- recruit, motivate and retain highly talented, entrepreneurial and top performing directors, officers, management employees and consultants;
- align their interests with the Company's shareholders over the long-term, creating long-term shareholder value; and
- enable them to participate in the Company's long-term growth and financial success.

As mentioned earlier, mid-term and long-term incentives represent the most important portion of the Company's executive compensation as it wants to attract entrepreneurial individuals, prepared to work for a relatively small-sized mining company.

On 26 April 2005, the Board of Directors, on the recommendation of the Compensation Committee and in the best interest of the shareholders, authorised, subject to regulatory and shareholders' approvals, the creation of the Restricted Share Unit Plan. The Restricted Share Unit Plan was approved at the last Annual Meeting of the shareholders of the Company held on 9 June 2005.

The Restricted Share Unit Plan is meant to complement the Share Option Plan to offer, through combinations of these equity-based incentive programs, optimal alignment of the interest of management employees of the Company to that of its shareholders. The choice of implementing a Restricted Share Unit Plan was taken by the Board of Directors after an analysis of various alternative equity-based plans. Of the potential equity-based plans considered, a combination of the current Share Option Plan with a Restricted Share Unit Plan was considered to provide the best balance between alignment with shareholder interests, protection against downside risk, share price volatility protection and employee retention.

A range of incentive awards is determined for each eligible employee based on individual performance, the achievement of the Company's objectives and strategic milestones and internal equity.

The Compensation Committee reviews periodically and approves all awards under the mid-term and long-term incentive plans and decides on the appropriate mix of share options and restricted share units to be awarded, for recommendation to the Board of Directors.

The amount and terms of outstanding share options and restricted share units are taken into account when determining whether and how many new share option grants and restricted share units are to be granted.

#### *Benefits*

The Company makes contributions representing up to 4% of base salary into any private medical insurance scheme, permanent health insurance scheme and/or life assurance scheme subscribed by employees of the Company.

The Company also makes contributions representing up to 10% of base salary into any private pension scheme subscribed by employees of the Company.

Such contributions are considered to be comparable with those of its peer group companies.

#### *Pension plan*

Other than as provided above, the Company does not provide pension benefits to any of its employees. Instead, the Company prefers to be more performance driven and, therefore, more aggressive on long-term incentive compensation. The Company believes that share options and restricted share units provide a proper balance and a better alignment with the interests of the Company's shareholders than pension benefits.

#### *Compensation of the Chief Executive Officer*

The compensation of the Chief Executive Officer of the Company was established applying the same principles as those stated above for the other members of the Company's management team.

## Conclusion

By way of application of the Company's compensation policy, an important part of executive compensation is "at risk" and linked to corporate strategic, operational and individual performance, and particularly to share performance and long-term value creation. The Compensation Committee continuously reviews compensation programs to ensure that they maintain their competitiveness and continue to focus on the Company's objectives, values and business strategies.

(s) Hon. Robert Kaplan (Chairman)

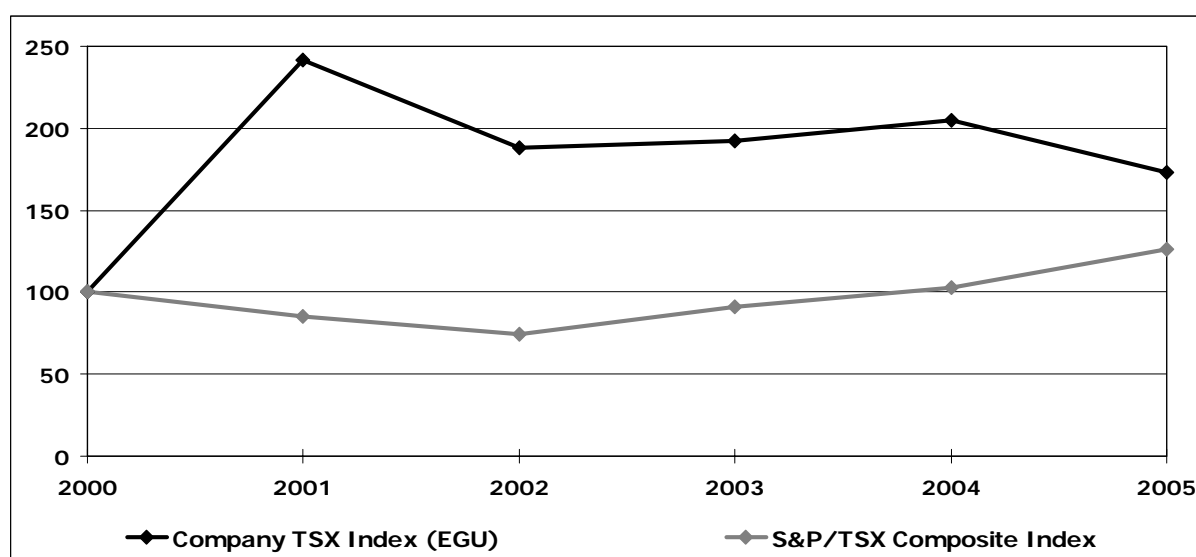
(s) Philip Johnson

(s) Jeffrey O'Leary

## PERFORMANCE GRAPH

The performance graph and table presented below compare the cumulative total shareholder return of a \$100 investment in the Company's common shares, the cumulative total return of the S&P/TSX Composite Index and the cumulative total return of the AIM Composite Index for the period commencing 31 December 2000 and ending 31 December 2005.

**Share Performance  
(31 December 2000 to 31 December 2005)**



	As at 31 December					
	2000	2001	2002	2003	2004	2005
Company (close)	\$1.30	\$3.15	\$2.45	\$2.50	\$2.67	\$2.25
S&P/TSX Composite Index (close)	\$8,933.68	\$7,688.41	\$6,614.54	\$8,220.89	\$9,246.65	\$11,272.26
AIM Composite Index (close)	£1,437.76	£897.84	£602.92	£835.43	£1,005.59	£1,045.15
Company	\$100	\$242	\$188	\$192	\$205	\$173
S&P/TSX Composite Index	\$100	\$85	\$74	\$91	\$103	\$126
AIM Composite Index	\$100	\$62	\$42	\$58	\$70	\$73

## **STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

A description of the Company's system of corporate governance which has been prepared with reference to the guidelines for effective corporate governance set out in Canadian National Policy 58-201 is reproduced in **Appendix 1** to this Management Proxy Circular.

## **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The Company maintains insurance protection against liability incurred by its directors and officers as well as those of its subsidiaries in the performance of their duties. The payment of the annual premium, amounting to C\$28,000 for the period of 9 February 2005 to 9 February 2006, is assumed by the Company. The aggregate limit of liability in respect of any and all claims is C\$4,000,000 for the insured period of 9 February 2005 to 9 February 2006. The policy provides for the indemnification of directors and officers in the case of claims for which the Company has not indemnified or is not permitted by law to indemnify them, and for the reimbursement of the Company, subject to a deductible of C\$50,000, in the case of claims for which it has indemnified or was permitted to indemnify the director or officer involved.

## **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Other than as disclosed in this Management Proxy Circular, no informed person, proposed nominee for election as a director, or any associate or affiliate of the foregoing, had any material interest, direct or indirect, in any transaction or proposed transaction since 1 January 2005 which has materially affected or would materially affect the Company or any of its subsidiaries.

## **APPOINTMENT AND REMUNERATION OF AUDITORS**

The management of the Company will recommend to the Meeting to appoint BDO Dunwoody LLP as auditors of the Company and to authorise the directors of the Company to fix their remuneration. BDO Dunwoody LLP were first appointed auditors of the Company on 10 September 2002.

## **PARTICULARS OF OTHER MATTERS TO BE ACTED UPON**

Management of the Company knows of no matters to come before the Meeting other than those referred to in the Notice of Meeting accompanying this Management Proxy Circular. However, if any other matters properly come before the Meeting, it is the intention of the persons named in the form of proxy accompanying this Management Proxy Circular to vote the same in accordance with their best judgment of such matters.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). Shareholders may contact the Company at Suite 200, Financial Plaza, 204 Lambert Street, Whitehorse, Yukon, Canada Y1A 3T2 or by telephone at +44 (0)20 7408 9534 to request copies of the Company's Annual Information Form, consolidated comparative financial statements and management's discussion and analysis for the most recently completed financial year. Financial information is provided in the Company's consolidated comparative financial statements and management's discussion and analysis for its most recently completed financial year.

**DIRECTORS' APPROVAL**

The contents and sending of this Management Proxy Circular have been approved by the directors of the Company.

DATED this 31<sup>st</sup> day of March 2006.

BY ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in black ink, appearing to read 'FD', with a horizontal line extending to the right.

François Dupuis  
Secretary

## Appendix 1 – Statement of Corporate Governance Practices

### APPENDIX 1

#### EUROPEAN GOLDFIELDS LIMITED

#### STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Corporate governance is the process and structure used to direct and manage the business and affairs of a corporation with the purpose of enhancing long-term shareholder value. Set out below is a description of European Goldfields Limited's (the "**Company**") system of corporate governance which has been prepared with reference to the guidelines for effective corporate governance set out in Canadian National Policy 58-201 (the "**Guidelines**").

The Company also intends, where practicable for a company of its size, to comply with the Guidelines and the main provisions of the combined code on Corporate Governance dated July 2003 and appended to the listing rules of the Financial Services Authority, made for the purposes of Part VI of the UK Financial Services and Markets Act 2000.

#### **Board of Directors**

The Guidelines suggest that the Company's Board of Directors (the "**board**") should have a majority of independent directors. An "**independent**" director, as defined in the Guidelines, is a director who has no direct or indirect material relationship with the Company, meaning a relationship which could, in the view of the board, reasonably interfere with the exercise of a member's independent judgement.

Applying those criteria, four of the Company's six directors are "independent", being Philip Johnson, Hon. Robert Kaplan, Dimitrios Koutras and Jeffrey O'Leary. David Reading, as Chief Executive Officer, is not an independent director and Timothy Morgan-Wynne, as the proposed Chief Financial Officer, will not be independent directors. None of the independent directors work in the day-to-day operations of the Company, are parties to material contracts with the Company or receive fees from the Company, other than directors' fees.

Also, when the Company applied to list its common shares on the Toronto Stock Exchange (the "TSX"), the Company undertook that (i) Mr. Vasile Frank Timis shall not be an officer or director of the Company and/or any of its subsidiaries nor act in the capacity as an officer and/or director of the Company and/or any of its subsidiaries; (ii) the Company will not accept any nominations for the board of directors of the Company or any of its subsidiaries from Mr. Timis; and (iii) the Company shall treat Mr. Timis as a "related party" of the Company as provided for in Section 501 of TSX's Company Manual and accordingly, shall comply with the reporting requirements in respect of any transactions between the Company and Mr. Timis. To the knowledge of the directors and executive officers of the Company, Mr. Timis beneficially owns, directly or indirectly, or exercises control or direction over shares carrying 7.8% of the voting rights attached to all outstanding shares of the Company.

To ensure that the board can function independently from management, the board has appointed a Chairman of the board who is not a member of management, and has appointed three committees, being the Audit Committee, the Compensation Committee and Corporate Governance & Nominating Committee, all of which are composed exclusively of independent directors.

The Chairman of the board, Dimitrios Koutras, is an independent director. However, effective leadership of the board is shared with the Chief Executive Officer who together with the Chairman ensure that the board's agenda will enable the board to successfully carry out its duties. The Chairman's role and responsibilities are mainly to provide strategic guidance and local knowledge to the board on the development of the Company's two main projects in Greece and Romania.

The independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. Such meetings are held as required by circumstances.

## Appendix 1 – Statement of Corporate Governance Practices

The attendance record of each director for all board meetings held since the beginning of the Company's most recently completed financial year is as follows:

-	Glenn Featherby:	3/4	
-	David Grannell:	4/4	
-	Philip Johnson:	4/4	
-	Hon. Robert Kaplan:	4/4	
-	Dimitrios Koutras:	3/4	
-	Jeffrey O'Leary:	0/0	(appointed 1 December 2005)
-	David Reading:	4/4	

The following shows directorships presently held by directors or proposed directors in other entities that are reporting issuers (or the equivalent) in Canada or in another jurisdiction:

Director	Other Directorships
Philip Johnson	N/A
Hon. Robert Kaplan	N/A
Dimitrios Koutras	Aktor S.A. Elliniki Technodomiki TEB S.A.
Jeffrey O'Leary	Palladex plc Goldstar Resources NL Moto Goldmines Limited
Timothy Morgan-Wynne	N/A
David Reading	N/A

### Board Mandate

There is no specific written mandate of the board, other than the corporate standard of care set out in the governing corporate legislation of the Company, the *Business Corporations Act* (Yukon Territory).

The board has overall responsibility for supervision of the management of the business and affairs of the Company. The board has acknowledged responsibility for the stewardship of the Company, including responsibility for:

- (a) establishing the policies, courses of action and goals of the Company and monitor management's strategies and performance for realising them;
- (b) reviewing and approving all major acquisitions, dispositions and investments, as well as financing and significant matters outside the ordinary course of the Company's business;
- (c) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;
- (d) identifying the principal risks of the Company's business, and ensuring the implementation of appropriate systems to manage these risks; and
- (e) adopting and maintaining the Company's internal control and management information systems.

## **Appendix 1 – Statement of Corporate Governance Practices**

In order to carry out the foregoing responsibilities, the board meets on a quarterly basis and as required by circumstances.

The board does not currently have in place a program for succession planning. As the growth of the Company continues, the board will consider implementing such a program.

The board has appointed a Corporate Governance & Nominating Committee composed of three independent directors. The Committee has the mandate to develop the Company's approach to corporate governance, including developing a set of corporate governance principles and guidelines specifically applicable to the Company and monitoring their disclosure.

The Company is dedicated to the maintenance of good stakeholder relations and attempts to deal with any expressed concerns of its shareholders and other stakeholders in an effective and timely manner. In particular, the Company takes special efforts to ensure that all legal and stock exchange disclosure requirements are addressed in a timely and effective manner. To this effect, in March 2006, the Corporate Governance & Nominating Committee adopted a written Disclosure Policy which the Chief Executive Officer has been mandated to implement within the Company and its subsidiaries.

The board has not established a formal process to permit shareholders and other stakeholders to directly contact the independent directors. However, stakeholders are invited to provide feedback to the Chief Executive Officer on each public communication of the Company. Also, the directors' e-mail addresses appear on the Company's website.

The board expects each member to attend all board and committee meetings, unless exceptional circumstances prevent a member to do so. The board has also indicated to management that it expects to receive notice of meetings and meeting materials at least five working days prior to each meeting.

### **Position Descriptions**

The Company does not have in place detailed written position descriptions for the Chairman of the board and the chair of each board committee, nor for the Chief Executive Officer delineating management's responsibilities.

The board's independent directors are of the view that no such descriptions are necessary in the Company's circumstances. The independent directors believe that their majority representation on the board, their knowledge of the Company's business and their independence are sufficient to facilitate the functioning of the board independently of management.

The board expects management to conduct the business and affairs of the Company effectively and in accordance with the board's direction. The board also expects management to provide accurate and timely reporting and analysis of the Company's performance.

The board monitors management on a regular basis. Management of the Company is aware of the need to obtain board approval for significant corporate or business transactions outside of the normal course of business. To this effect, in March 2006, the Corporate Governance & Nominating Committee adopted a written Policy on Signing Authority which the Chief Executive Officer has been mandated to implement within the Company and its subsidiaries.

The annual budget is approved by the board and sets the goals and objectives that the Chief Executive Officer is responsible for meeting. The annual budget is also reviewed regularly by the board as a key road map to assess performance and progress. Decisions which would affect the budget require prior board approval. Less significant activities which can be addressed by management are often reported to the board, with which management has a good working relationship.

## Appendix 1 – Statement of Corporate Governance Practices

The board does not believe it is useful to involve itself in the daily management and activity of the Company. It expects management to be responsible for the effective, efficient and prudent management of the Company subject to the board's overall stewardship responsibilities. The board expects management to:

- (a) report in an accurate, comprehensive and timely fashion on the affairs of the Company generally and on any specific items that management believes to be of a material or significant consequence to the Company and its shareholders and other stakeholders;
- (b) take timely action and make all appropriate decisions required with respect to the Company's operations in accordance with all applicable legal and other requirements or obligations;
- (c) conduct a comprehensive budgeting process and monitor closely the Company's financial and operating performance in relation to the annual business plan approved by the board; and
- (d) implement appropriate policies, procedures and processes to ensure the highest level of conduct and integrity of the Company's management and employees.

This procedure is favoured over the use of formal mandates which may serve to inhibit management initiatives.

### Orientation and Continuing Education

The members of the board have been chosen on the basis of their skill, expertise and experience in the international resource industries, as well as their ability to actively contribute on the broad range of issues with which the board must deal.

The board does not currently have in place formal orientation and education programs for new recruits to the board, or programs for the continuing education of directors and management. As the growth of the Company continues, the board will consider implementing such programs.

However, at their initiative, board members are encouraged to attend seminars so that they may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the Company's business remains current. With this objective in mind, the board plans to meet on location at one of the Company's projects at least once every year.

### Ethical Business Conduct

In March 2006, the Corporate Governance & Nominating Committee adopted a written Code of Business Conduct and Ethics (the "**Code**") which the Chief Executive Officer has been mandated to implement within the Company and its subsidiaries. The Code is applicable to the directors, officers and employees of the Company and its subsidiaries. The Code constitutes written standards that are reasonably designed to promote a culture of honesty, integrity and accountability.

A copy of the Code is filed on SEDAR at [www.sedar.com](http://www.sedar.com) and may be obtained from the Company's website at [www.egoldfields.com](http://www.egoldfields.com).

The Corporate Governance & Nominating Committee is responsible for monitoring compliance with the Code, for regularly assessing its adequacy, for interpreting the Code in any particular situation and for approving any changes to the Code as is required from time to time. Any waiver of a provision of the Code may be made only by the Corporate Governance & Nominating Committee and will be promptly disclosed to the public as required by law or regulation.

To ensure directors exercise judgement in considering transactions and agreements in respect of which a director or executive officer has a material interest, such director or executive officer is requested not to attend any meetings where such transactions and agreements are approved by the board.

## **Appendix 1 – Statement of Corporate Governance Practices**

To further encourage and promote a culture of ethical business conduct, in March 2006, the Corporate Governance & Nominating Committee adopted a written Policy on Whistleblowing Protection which the Chief Executive Officer has been mandated to implement within the Company and its subsidiaries.

### **Nomination of Directors**

The board has appointed a Nominating Committee composed of three independent directors.

The Nominating Committee meets from time to time as circumstances require. There is no specific written charter of the Nominating Committee formalising the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations and manner of reporting to the board.

There are no formal procedures in place for recruiting new directors. The size of the board and the nature of the business conducted by the Company are such that the directors believe that a less formal approach is adequate.

However, the board has given the Nominating Committee the mandate to identify individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of shareholders.

In making its recommendations, the board expects the nominating committee to consider:

- (a) the competencies and skills that the board considers to be necessary for the board, as a whole, to possess;
- (b) the competencies and skills that the board considers each director to possess;
- (c) the competencies and skills each new nominee will bring to the boardroom; and
- (d) whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member.

Prior to nominating or appointing individuals as directors, the board intends to adopt a process whereby it shall, having considered the advice and input of the Nominating Committee (i) consider what competencies and skills the board, as a whole, should possess, and (ii) assess what competencies and skills each existing director possesses.

The board presently consists of five members and it is proposed that six members be elected for the coming year. Having consulted with the Nominating Committee, the board believes that a group of six directors is sufficiently large to allow for the breadth of experience critical to the board's understanding of the issues facing the Company, while still small enough to allow for effective decision-making.

The board has given the Nominating Committee the authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.

### **Compensation**

The board has appointed a Compensation Committee composed of three independent directors.

The Compensation Committee meets from time to time as circumstances require. There is no specific written charter of the Compensation Committee formalising the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations and manner of reporting to the board.

## **Appendix 1 – Statement of Corporate Governance Practices**

However, the board has given the Compensation Committee the responsibility for:

- (a) reviewing recommendations from management and making recommendations to the board for the appointment of persons to executive positions;
- (b) reviewing and approving corporate goals and objectives relevant to compensation of the Chief Executive Officer, evaluating the Chief Executive Officer's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the Chief Executive Officer's compensation level based on this evaluation;
- (c) making recommendations to the board with respect to non-CEO officers and director compensation, incentive compensation plans and equity based plans; and
- (d) reviewing executive compensation disclosure before the Company publicly discloses this information.

The board has given the Compensation Committee the authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.

The process by which the board determines the compensation for the Company's directors and officers is described in the Company's most recent Management Proxy Circular.

### **Other Board Committees**

In addition to the Compensation Committee and the Corporate Governance & Nominating Committee, the board has appointed an Audit Committee composed of three independent directors. Additional information on the Audit Committee is included in the Company's Annual Information Form for the year ended 31 December 2005, filed on SEDAR at [www.sedar.com](http://www.sedar.com). Also, the terms of reference of the Company's Audit Committee are reproduced as an appendix to such Annual Information Form.

### **Assessments**

There are no formal procedures in place for assessing the board, its committees and each individual director on a regular basis with respect to their effectiveness and contribution.

The size of the board, the nature of the business conducted by the Company and the familiarity of all board members with the business are such that the directors believe that a less formal approach is adequate.

### **Concluding Statement**

The Company has adopted a number of the recommendations for improved corporate governance contained in the Guidelines. In certain areas, the board has determined that the Guidelines are not appropriate for the conduct of the Company's business at this stage of its development. However, as the Company continues to grow, the board will continuously review its corporate governance practices to determine if any changes are necessary.

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