

European Minerals Corporation

Annual Report & Accounts

2007



European Minerals
Corporation

European Minerals Corporation is a mineral exploration and development company focused on identifying, acquiring and developing resource projects. The Company's principal asset is the Varvarinskoye Gold-Copper Mine located in the Republic of Kazakhstan and held by a wholly-owned subsidiary of the Company, JSC Varvarinskoye.

2007 Highlights

Construction of the Varvarinskoye Plant completed

Plant commissioning has commenced

President Nursultan Nazarbayev of Kazakhstan visited Varvarinskoye

First gold poured

Updated estimate of mineral resources and reserves estimates at Varvarinskoye

Drilling for additional mineralization is underway

Private placement of new shares concluded

Project loan fully utilized

Expansion of central and project management teams

Contents

Chairman's and President's Message	2	Consolidated Balance Sheets	40
Environmental and Social Responsibility	4	Consolidated Statements of Operations and Deficit	41
Management's Discussion and Analysis of Operating Results	6	Consolidated Statements of Cash Flows	42
Management's Responsibility for Financial Reporting	38	Notes to Consolidated Financial Statements	43
Auditors' Report	39	Company Information	61

Chairman's and President's Message



Tony Williams
Chairman



Bert Kennedy
President and Chief Executive

We are pleased to report that 2007 was a year of excellent progress for our Company during which we attained many significant milestones on the road to becoming the largest primary gold producer in Kazakhstan.

In September 2007 we were honoured with a visit to Varvarinskoye by President Nursultan Nazarbayev. The President was enthusiastically welcomed by all the staff at the mine. During a tour of the open pit and process plant President Nazarbayev commented on the scale of the Varvarinskoye development and remarked that Varvarinskoye represented the type of diversified development which was encouraged in Kazakhstan. We would like to thank the President for the interest he showed in our project.

Construction of the Varvarinskoye process plant was completed in October without significant cost over-runs or delays. When put in context with other mineral development projects worldwide this is a remarkable achievement. On completion of construction we commenced commissioning the process plant, a complex task with numerous challenges. The commissioning was complicated by the onset of a severe winter in Kazakhstan with frequent blizzards and temperatures occasionally dropping to minus 38C. Mining also continued through the winter with only about 10 days production lost due to extremely bad weather. As we commenced commissioning we had a stockpile of approximately 1.6 million tonnes of ore with which to feed the plant.

In spite of these difficult conditions our first gold was poured, on schedule, in December 2007 and commissioning of the plant was completed in Q1 2008. Although the ramp up to full production will take longer than we anticipated, metallurgical performance in the plant has been good with mechanical availability of around 93% achieved by the end of April 2008 which compares very well with any international mining industry standard.

As the ramp up of production progresses we are making adjustments to certain design aspects of the equipment supplied to the plant with the assistance of some of the original equipment manufacturers, who have representatives on site advising on how we can achieve the ramp up of the through-put of ore to the design level of 4.2 million tonnes per year. As we undertake this work we continue to pour gold on a regular basis and have, so far, delivered six lots of doré to the Metalor refinery in Switzerland. We are also preparing to export our first shipment of 2,500 tonnes of copper gold concentrate to the Porri smelter in Finland and expect to increase the monthly tonnage of concentrate shipped as we ramp up production.

From a financial standpoint the transition from developer to producer in late 2007 and early 2008 has been difficult. In 2007 we completed the drawdown of the US\$61 million project debt facility. However, the slower than anticipated ramp up of production required us to seek additional funding which we obtained by way of a private placement of common shares of the Company, which raised approximately Cdn\$ 22 million in December 2007. In view of the change to our forecast production profile, from late 2007 through 2008 we were negotiating a restructuring of our debt facility, whilst having to settle our hedge commitments in cash. We are pleased to report that in May 2008 we reached agreement with our syndicate of lending banks to amend the terms of the US\$61 million debt package which will enable us to conserve cash as we build up production. The support we have received from major shareholders and lenders demonstrates their faith in our Varvarinskoye project and we wish to thank them for that.

In April 2008 assay results received from a drilling programme targeting mineralisation beneath the current pit design combined with some historical data enabled the Company to calculate (to NI 43-101 standards) additional estimated Measured and Indicated Mineral Resources. This increase in resources was announced in a press release of May 9, 2008.

We are pleased to report that 2007 was a year of excellent progress for our Company during which we attained many significant milestones on the road to becoming the largest gold mine in Kazakhstan.

The measured and indicated resources have increased by approximately one million ounces of gold and 157 million pounds of copper (26 million tonnes of ore grading 1.24g/t gold and 0.32% copper). This represents around a 25% increase in contained gold and 35% increase in contained copper.

We have now appointed an independent engineering company to undertake a scoping study to engineer the expansion of the Varvarinskoye plant throughput beyond the currently planned 4.2 million tonnes per annum.

In addition to the reserves and resources which form the core asset at Varvarinskoye we hold a 220sq km exploration licence area surrounding the Varvarinskoye mining licence which contains numerous gold and copper anomalies providing further exploration targets for the future.

At the time of writing your Company is advancing the process to create an enlarged corporate entity by the proposed acquisition of Lero Gold Corporation ("Lero"). Lero owns gold and copper exploration properties in Kazakhstan and Kyrgyzstan. The details of the acquisition were announced in a joint press release from the two companies on April 18, 2008. Full details of the proposed acquisition and Lero can be viewed through the Internet at www.sedar.com under the names of the Company or Lero. The boards of directors of your Company and Lero believe there are substantial benefits by the combination of a significant gold producer with the upside potential in the exploration properties of both companies, allowing a well funded corporate entity, with an enlarged and strengthened management team with a proven track record in the former Soviet Union, to realise its full potential.

Your board believes that combining the Varvarinskoye cash flow and expansion potential with Lero's growth potential, will position the enlarged entity to be a premier growth company with the ability to be a regional consolidator and bring benefits to shareholders of both companies.

Varvarinskoye is a major mine which has risen from the Kazakh steppes in less than 30 months, which is a major achievement by the standards of any mining company. The financing, construction and commissioning of Varvarinskoye was often progressed under very difficult circumstances not least of which was the bankruptcy of our initial project contractor and termination of the lump sum turnkey contract early in 2006.

Finally, we wish to thank all the stakeholders in our Company, especially our management team and employees for the achievements to date.



Tony Williams
Chairman



Bert Kennedy
President and Chief Executive

May 2008

Environmental and Social Responsibility

European Minerals Corporation endeavours to be a good neighbour and corporate citizen and strives to maintain good relations with the public and will continue to support welfare activities in the communities in which it operates.

European Minerals Corporation ("EMC" or the "Company") is committed to adhering to high standards of Corporate and Social Responsibility and recognizes the future viability of the Company depends greatly on the health and well-being of its employees and their families, members of the local communities and the physical environment in which the Company operates.

In order to protect and improve the quality of human life and the environment, EMC has successfully implemented a variety of programmes and policies in the areas of health, safety, environment, community relations, education and training.

EMC's wholly owned Kazakh subsidiary JSC Varvarinskoye ("JSCV") is subject to compliance with both World Bank standards for environmental protection and environmental legislation as set out by the Government of the Republic of Kazakhstan. As part of the Definitive Feasibility Study for the Varvarinskoye project, JSCV engaged an independent, international consultancy to carry out an Environmental Impact Assessment in compliance with International and World Bank Standards.

Subsequently, the Company engaged the same consultants to prepare environmental management programmes for the project in compliance with the "Equator Principles", a voluntary code of environmental standards developed by engineers for the use of financial institutions in determining, assessing and managing environmental and social risk in project financing.

In 2007, JSCV strengthened its environmental management team to six environmental and hydrogeological professionals headed by Vladimir Patsenko, a Kazakh environmental manager with over 25 years of experience, who supervises and manages the Company's compliance with the Kazakh environmental regulations and the Equator Principles.

JSCV prides itself on the constructive relationship it has developed with national and regional Kazakh government agencies, communities, its employees and will continue to work to maintain these. The Company and JSCV also continue with the policy of public consultation and are pleased to report there have been no objections from the public to the development of Varvarinskoye which, in fact, has been widely welcome for the social benefits which it has brought to the area.

EMC is committed to improving the quality of life in the area in which it operates by investing in education, health care and other important community initiatives. For example, last year a significant contribution was made to the construction of new classrooms and educational supplies for the Varvarinka junior school.

In addition to supporting education, the Company has contributed to regional health care with direct financial support for the refurbishment of Taranovka general hospital, which is about 20km from the Varvarinskoye mine site. Furthermore, it has made contributions to various regional welfare foundations and supported Tobol FC football club in Kustanai.

EMC endeavours to be a good neighbour and corporate citizen and strives to maintain good relations with the public and will continue to support welfare activities in the communities in which it operates.

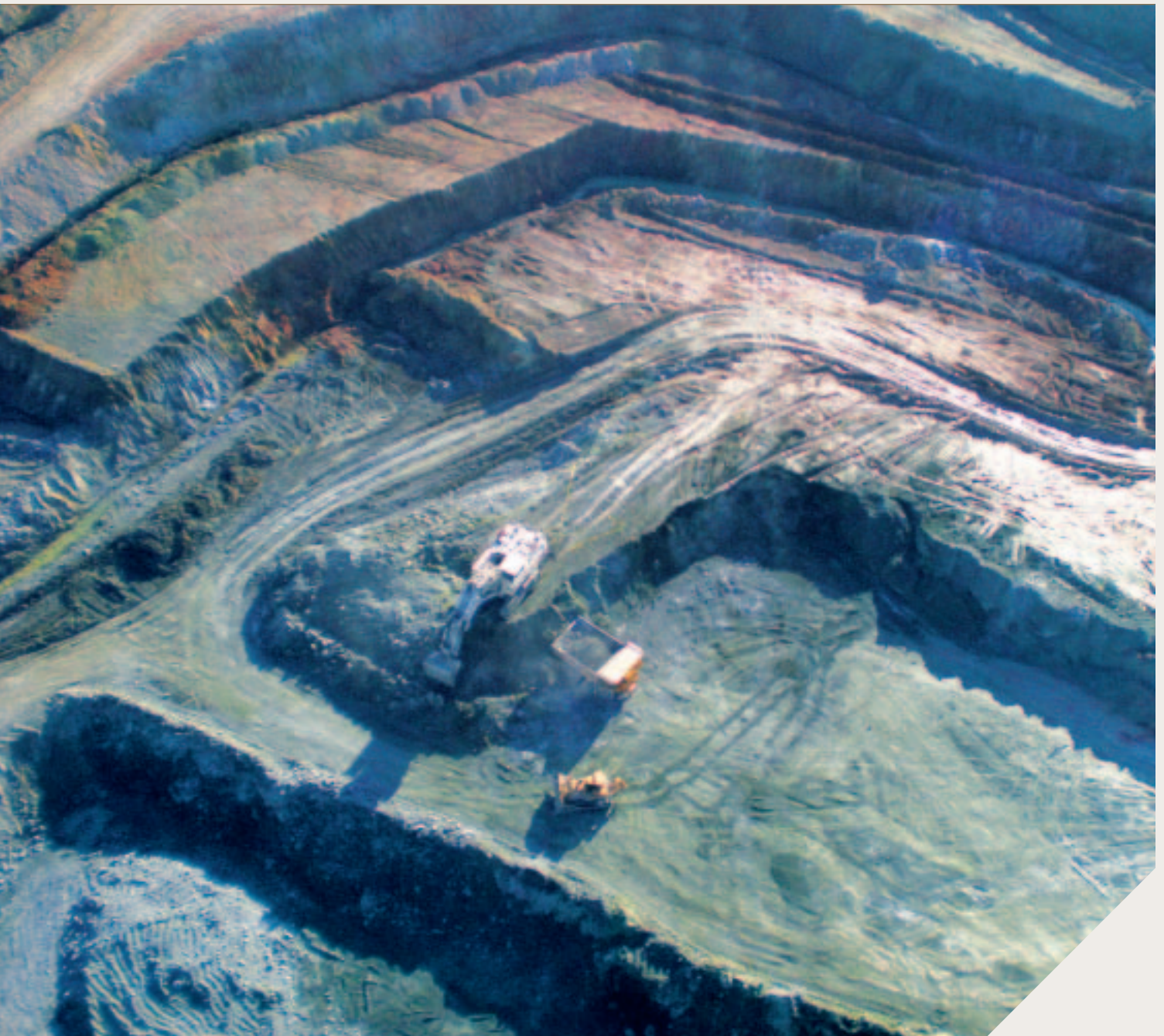
First ore being tipped into ROM bin



President's Visit



Mining in the Central Pit



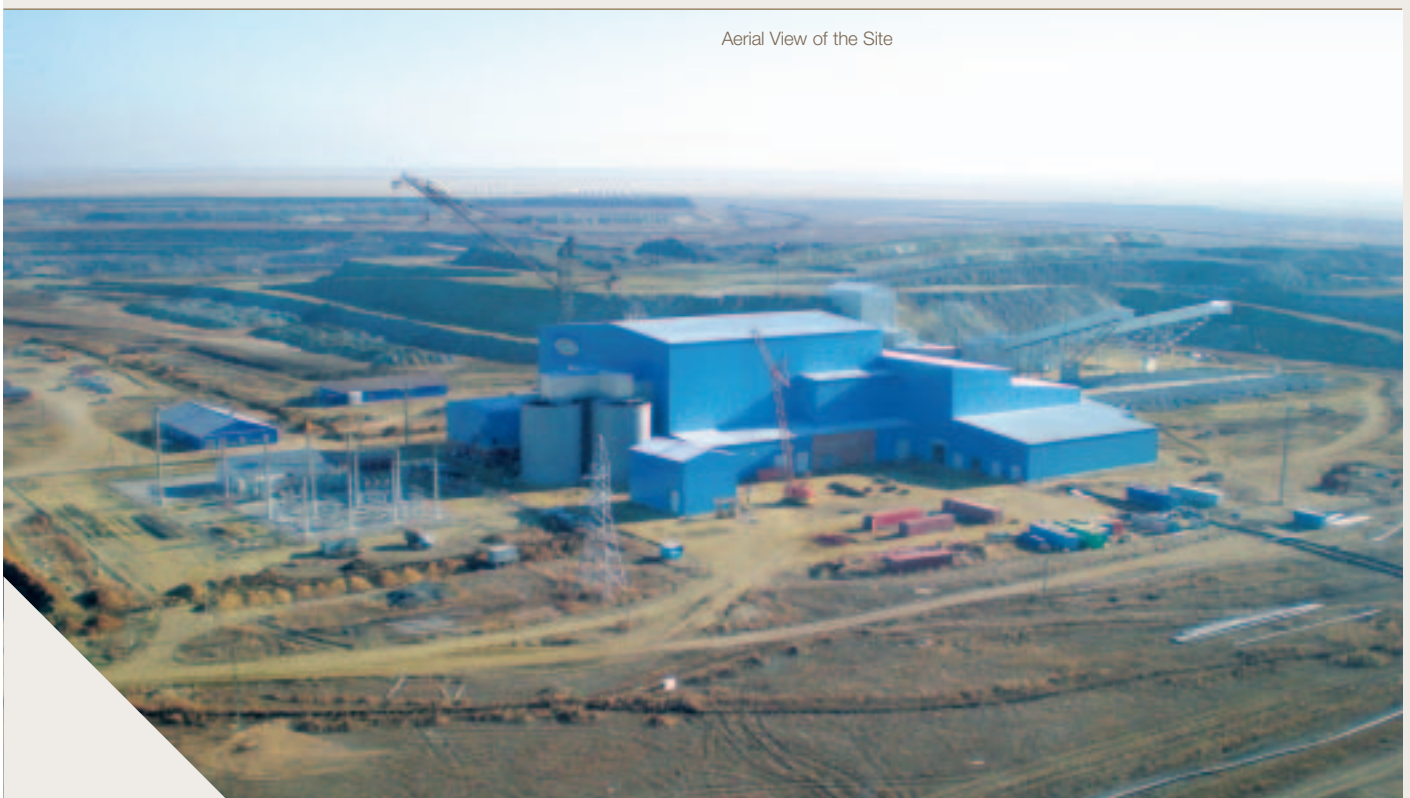
Management's Discussion and Analysis of Operating Results

European Minerals Corporation ("EMC" or "the Company") failed to complete and file this management's discussion and analysis ("MD&A") within the time required by Canadian National Instrument 51-102 - Continuous Disclosure Obligations as a result of additional time required to incorporate in the Company's annual consolidated financial statements, to which this MD&A relates, the financial implications of the Company's successful resolution on March 28, 2008 of the litigation concerning the Company's action to recover monies advanced to a former contractor, which were expropriated by ABSA Bank Limited of South Africa, as well as unexpected difficulties encountered in finalizing inter-group reporting from the Company's Kazakhstan operation.

This MD&A provides detailed analysis of the financial condition and results of operations of the Company and compares its results for the year ended December 31, 2007 with the previous year. The MD&A should be read in conjunction with the Company's Consolidated Financial Statements for the year ended December 31, 2007 and the related notes thereto which have been prepared in accordance with Canadian generally accepted accounting standards ("GAAP"). The financial data contained in the MD&A has been prepared in accordance with GAAP. All figures are in US dollars unless otherwise stated.

The effective date of this MD&A is April 11, 2008 and the information contained herein is provided as at such date unless otherwise indicated.

Aerial View of the Site



The Varvinskoye Project is located close to the village of Varvarinka, 130 km southwest of Kustanai in Northern Kazakhstan and occupies an area of approximately 1,300 hectares.

Varvarinskoye Project

The Varvarinskoye Project is located close to the village of Varvarinka, 130 km southwest of Kustanai in Northern Kazakhstan. The project occupies an area of approximately 1,300 hectares. During 2007, completing the development and construction of the Plant and mining infrastructure at Varvarinskoye was Management's main focus.

Progress update

In line with its revised timing estimate, the development of the Varvarinskoye Project had been completed by October 2007 when the commissioning of the Plant commenced.

On September 14, 2007, President Nursultan Nazarbayev of Kazakhstan visited Varvarinskoye. President Nazarbayev's first action on site was to initiate a blast of about 50,000 tonnes of ore in the Varvarinskoye main pit. President Nazarbayev then visited the Plant. President Nazarbayev addressed the workforce and spoke eloquently about the positive impact that the Varvarinskoye Project would have on this region of Kustanai Oblast and how the successful development of Varvarinskoye reflected the strategic economic policies that the Kazakh Government are pursuing. President Nazarbayev then started the mills on the Varvarinskoye copper/gold circuit.

Mechanical commissioning commenced during October and was completed in November. This "cold" commissioning phase was managed by the Company's in-house commissioning team. The commissioning team had been on site since early October 2007, initially training the Company's Plant operators and assisting the construction team in preparation for the "cold" commissioning of the Plant. In December the feeding of crushed ore into the Plant commenced. The Company produced its first gold in late December 2007. Gold has continued to be produced during the ongoing commissioning phase. Since the year end four consignments of dore containing approximately 3,300 ounces of gold have been sent for processing.

Commissioning of the flotation circuit commenced in February 2008, with the objective of building up daily throughput tonnage of ore in both the gold leach and copper flotation circuits until the Plant reaches its design rate of 4.2 million tonnes of ore per annum. The Company produced its first gold and copper concentrate from the flotation circuit in March 2008 and expects to ship this for processing during April 2008. Metallurgical performance in the Plant is good, with metal recoveries in the gold leach circuit and the copper/gold flotation circuit in line with design parameters.

The commissioning process is progressing slower than previously anticipated by the Company. The ramp up to commercial production is now expected to be achieved by the end of Q3 fiscal 2008. Issues which are currently constraining a more rapid ramp up include:

- Optimising the crusher to achieve the design crush product.
- Replacing electric motors on the mill discharge pumps. The motors appear to have been undersized at the design stage and the supplier is co-operating with the Company to rectify this and achieve design capacity.
- Achieving design tonnage through the high-grade copper ball mill is proving more difficult than anticipated and the manufacturer continues to advise the Company to attain full design throughput capacity.
- A minor fire in the high grade mill cyclone cluster, the damage to which has been repaired.
- Unusually bad weather in late February and March 2008 disrupted operations at site.

Management's Discussion and Analysis of Operating Results **continued**

During 2007 the Company continued to enhance its management and operating team at Varvarinskoye with the appointments of Kazakh national and expatriate managers.

This has continued since the year end. Management is confident the team at Varvarinskoye has the knowledge and experience to establish a commercial mining operation.

Resources

In a news release dated January 15, 2007 the Company announced that following revisions in the interpretation of the Varvarinskoye geological model, "Ravensgate", part of Passeres Group Pty Ltd. of Perth, Western Australia, undertook updated mineral resource estimates for the Varvarinskoye Project, under the definitions and guidelines specified in Canadian National Instrument 43-101. Grade and tonnage dilution factors requested by the independent engineers acting for the lenders of the project debt facility were also applied to the resource,

The "qualified person" (as such term is defined in NI 43-101) who is responsible for the technical and scientific information herein, other than the updated mineral resource and mineral reserve estimates for the Varvarinskoye Project, is Bert Kennedy, the Company's President and Chief Executive Officer. Mr. Kennedy has verified the data disclosed in this MD&A, including any sampling, analytical and test data underlying drill results.

resulting in, what Management believes to be, a more conservative estimate of gold and copper grades. The key assumptions, parameters and methods used in the preparation of the following mineral resource estimates are detailed in the MDM Ferroman "Varvarinskoye Gold/Copper Project Bankable Feasibility Study" (the "Feasibility Study") dated November 2004 (see the Company's news release dated November 10, 2004). The effective date for the following mineral resource estimates is December 15, 2006:

Measured Mineral Resource Estimates at 0.01 gpt Au Cutoff

Ore Type ⁽³⁾	Ktonnes	Au gpt	%Cu	Oz Au	Lbs Cu
HGCF	20,900	1.33	0.61	890,455	279,688,647
HGCP	5,923	1.12	0.46	212,352	59,804,873
LGCF	54,509	0.89	NR ⁽¹⁾	1,558,146	-
LGCP	2,919	1.05	NR ⁽¹⁾	98,468	-
TOTAL	84,252	1.02	0.57 ⁽²⁾	2,759,420	339,493,520

Leach tanks with tank top structure



Gold pour



Indicated Mineral Resource Estimates at 0.01 gpt Au Cutoff

Ore Type ⁽³⁾	Ktonnes	Au gpt	%Cu	Oz Au	Lbs Cu
HGCF	10,474	1.06	0.42	355,305	96,057,671
HGCP	1,127	0.88	0.62	31,867	15,311,584
LGCF	26,387	0.88	NR ⁽¹⁾	743,256	-
LGCP	912	0.91	NR ⁽¹⁾	26,637	-
TOTAL	38,901	0.93	0.44 ⁽²⁾	1,157,065	111,369,256

Measured & Indicated Mineral Resource Estimates at 0.01 gpt Au Cutoff

Ore Type ⁽³⁾	Ktonnes	Au gpt	%Cu	Oz Au	Lbs Cu
HGCF	31,374	1.24	0.54	1,245,759	375,746,318
HGCP	7,050	1.08	0.48	244,218	75,116,458
LGCF	80,896	0.89	NR ⁽¹⁾	2,301,401	-
LGCP	3,832	1.02	NR ⁽¹⁾	125,106	-
TOTAL	123,153	0.99	0.53 ⁽²⁾	3,916,485	450,862,776

Inferred Mineral Resource Estimates at 0.01 gpt Au Cutoff

Ore Type ⁽³⁾	Ktonnes	Au gpt	%Cu	Oz Au	Lbs Cu
HGCF	4,788	0.92	0.41	141,191	43,704,841
HGCP	373	0.73	0.32	8,713	2,600,260
LGCF	11,123	1.09	NR ⁽¹⁾	390,549	-
LGCP	356	0.82	NR ⁽¹⁾	9,385	-
TOTAL	16,640	1.03	0.41 ⁽²⁾	549,839	46,305,101

Notes:
⁽¹⁾ "NR" means no economically recoverable copper.
⁽²⁾ This grade is valid only for HGCF and HGCP.
⁽³⁾ HGCF is High Grade Copper Feed -- flotation ore; HGCP is material stockpiled for treatment in the future; LGCF is Low Grade Copper Feed -- Gold leach ore; LGCP is Low Grade Copper Feed -- Gold leach ore from the weathering zone

The "qualified person" (as such term is defined in National Instrument 43-101) who compiled and is responsible for the updated mineral resource estimates for the Varvarinskoye project as disclosed above was Stephen Hyland, who is a Principal Consultant of Ravensgate and independent of EMC. Mr. Andre Wulfse, who is a Principal Consultant of Ravensgate and independent of EMC, and a "qualified person" (as such term is defined in National Instrument 43-101), reviewed and approved the above disclosures relating to such mineral resource estimates.

Management's Discussion and Analysis of Operating Results continued

Reserves

In a new release dated January 15, 2007 the Company announced that Orelogy Pty Limited ("Orelogy") of Perth, Western Australia generated updated Proven and Probable Mineral Reserve estimates for the Varvarinskoye Project based on the Measured and Indicated categories of the resource model using a gold price of \$525 per ounce and a copper price of \$1.30 per pound.

Capital and operating costs used in the reserve modeling were those established at December 2006 levels and had increased from those utilized in the Feasibility Study. The key assumptions parameters and methods used in the following estimates of mineral reserves estimates are detailed in the Feasibility Study. The effective date for the following mineral reserve estimates is December 15, 2006:

Proven Mineral Reserve Estimates

Category ⁽³⁾	Tonnes ('000)	Au gpt	%Cu	Oz Au ('000)	Millions Lbs Cu
HGCF	14,386	1.59	0.70	733	223
LGCF	33,610	0.97	NR ⁽¹⁾	1,049	-
LGCP	2,583	1.09	NR ⁽¹⁾	90	-
TOTAL	50,579	1.15	0.70 ⁽²⁾	1,872	223

Provable Mineral Reserve Estimates

Category ⁽³⁾	Tonnes ('000)	Au gpt	%Cu	Oz Au ('000)	Millions Lbs Cu
HGCF	2,719	1.43	0.52	125	31
LGCF	6,640	1.04	NR ⁽¹⁾	222	-
LGCP	699	0.95	NR ⁽¹⁾	21	-
TOTAL	10,058	1.15	0.52 ⁽²⁾	369	31

Proven & Provable Mineral Reserve Estimates

Category ⁽³⁾	Tonnes ('000)	Au gpt	%Cu	Oz Au ('000)	Millions Lbs Cu
HGCF	17,105	1.56	0.67	858	254
LGCF	40,250	0.98	NR ⁽¹⁾	1,271	-
LGCP	3,282	1.06	NR ⁽¹⁾	111	-
TOTAL	60,637	1.15	0.67 ⁽²⁾	2,241	254

Notes:

(1) "NR" means no economically recoverable copper.

(2) This grade is valid only for HGCF.

(3) HGCF is High Grade Copper Feed -- flotation ore; LGCF is Low Grade Copper Feed -- Gold leach ore; LGCP is Low Grade Copper Feed -- Gold leach ore from the weathering zone

During Q4, fiscal 2007, two diamond drilling rigs were mobilized at Varvarinskoye to undertake drilling to delineate additional mineralisation within the current mining limits and beneath the planned pit bottom.

The "qualified person" (as such term is defined in National Instrument 43-101) who supervised the preparation of and is responsible for the updated mineral reserve estimates for the Varvarinskoye Project as disclosed is Stephen Craig, who is an employee of Orelogy and independent of EMC.

Termination of lump sum turnkey contract ("LSTK")

In January 2006, the Company terminated the LSTK entered into with MDM Ferroman (Pty) Limited ("MDM"). Following the cancellation of the LSTK the Company was notified that MDM was the subject of insolvency proceedings. The Company subsequently received notification that funds advanced by the Company of approximately ZAR 28.3 million (2007-\$4.2 million; 2006-\$4.0 million) paid to MDM as payment for MDM sub-contractors' had been with-held by MDM's bankers. Subsequently the Company pursued a legal challenge for recovery of such funds.

On March 28, 2008 the Company received notification that it had been successful in its case against MDM's bankers. MDM's bankers were ordered to repay the Company the full amount of the funds misappropriated totalling approximately ZAR 28.3 million (approximately \$3.9 million), together with interest of approximately ZAR 10 million (approximately \$1.3 million) and costs which had yet to be determined.

Since receiving notification that the Company's legal case has been successful, the liquidator of MDM has revived a claim against the Company in relation to the termination of the LSTK. Prior to being placed into provisional liquidation, MDM assigned all of its rights and obligations under its contracts with suppliers to JSCV under a cession agreement (the "Cession").

The liquidator of MDM claims the Cession of sub-contracts under the LSTK gave rise to the Company receiving a benefit in preference to other creditors and claims this could be set aside under South African insolvency law and has raised claim against JSCV for ZAR 46 million (\$5.9 million). Until this claim is settled the funds recovered from MDM's bankers will be held by the Company's solicitors in an interest bearing bank account when such funds are received.

The Company has received legal advice and is defending this claim and believes it will ultimately be successful. However, there can be no assurance that the Company will be successful in any legal actions it may take to defend this claim. As a result the Company may suffer losses and these could be material and could have a material adverse effect on EMC's business and financial condition.

Varvarinskoye Exploration

During Q4, fiscal 2007, two diamond drilling rigs were mobilized at Varvarinskoye to undertake drilling to delineate additional mineralisation within the current mining limits and beneath the planned pit bottom. Results from this drilling will be reported as they become available.

In addition, a 2,500 metre drilling programme commenced. The purpose of this programme is to test various gold and copper geological anomalies within the 220 sq km exploration licence which surrounds the 3 sq km Varvarinskoye mining licence.

Management's Discussion and Analysis of Operating Results **continued**

Other Project and Exploration

During 2007, the Company continued to investigate sourcing additional exploration projects with a focus on properties in Eastern Europe and plans to continue these efforts in fiscal year 2008. Consistent with the Company's policy on expensing costs relating to non-specific projects, these expenditures have been written-off in fiscal years 2007 and 2006.

In 1999 the Company sold its interest in Tasbulat Oil Corporation ("Tasbulat"), a company producing oil in Kazakhstan. This remaining net investment in oil and gas residual interests is expected to be recovered from the Company's share of a 1% gross overriding royalty (based on gross sales proceeds less certain sales related costs and taxes) which is payable to the Company from all oil produced from the Tasbulat Fields exceeding 2.0 million barrels of oil equivalent. \$0.3 million (2006 - \$0.25 million) of royalty income has been booked for the year ended December 31, 2007. This has been deducted from the carrying value of the investment. The Company anticipates full recovery of its residual net investment in oil and gas interests from future royalty income.

During 2007, Management concluded that the Company's exploration concessions in Albania were not core to future strategy. As a result, the Company disposed of its interest for a total of \$0.4 million to be received over an agreed timescale.

Overview of Operations

Recent Developments

Private placement

On December 18, 2007, the Company issued a total of 17,496,875 common shares of no par value at a price of Cdn \$1.28 per share, for aggregate gross proceeds of Cdn \$22,396,000 in connection with a private placement offering. The Company raised these funds to finance the advancement of its mineral projects and for general corporate purposes. The common shares rank *pari passu* with the existing common shares in the Company.

Debt facility

On November 30, 2005, JSCV entered into a limited recourse debt facility ("the debt facility") with Investec Bank (UK) Limited, Investec Bank Limited and Nedbank Limited ("the Lenders") to fund the debt portion of the construction of the Varvarinskoye Project for a total amount of \$75.4 million. The Company was unable to draw-down from this facility until the issues relating to the cancellation of the LSTK with MDM and subsequent completion of the EPCM with SENET were finalized. These issues were resolved during the year ended December 31, 2006 with the debt facility being amended and concluded on December 19, 2006. The facility is collateralized by the assets of JSCV. The covenants of the debt facility require the Company to deposit cash balances in restricted accounts and also to enter into a hedging facility (as discussed below). The debt facility also requires the Company not to raise any new debt or make distributions which result in the Company exceeding certain specified financial ratios.

Ball Mills



Dore Gold Bars



Upon finalization of the debt facility in 2006, the total facility available was reduced to \$61 million consisting of:

- a commercial loan of \$18 million (the “Commercial Loan”);
 - a loan facility supported by the Export Credit Insurance Corporation of South Africa of \$35 million (the “ECIC Loan”); and
 - a convertible loan facility (the “Convertible Loan”) of \$8 million.
- a) The Commercial Loan is for a period of 30 months and is repayable in three semi-annual instalments commencing June 30, 2008. Interest is payable on this facility at London Interbank borrowing rates (“LIBOR”) plus 2.8%. At December 31, 2007 the Company had drawn down \$17.9 million (2006 - \$nil) from this facility.
- b) The ECIC Loan is for a period of 42 months and is repayable in four semi-annual instalments commencing June 30, 2008. Interest is payable on this facility at LIBOR plus 1.25%. At December 31, 2007, the Company had drawn down \$34.3 million (2006 -\$13.3 million) from this facility.
- c) The Convertible Loan is available from December 19, 2006 with semi-annual repayments commencing June 30, 2009 until the final repayment date on June 30, 2010. The Convertible Loan does not incorporate any direct conversion option for either the issuer or the holder. However, in conjunction with the draw-down of the debt facility the Company issued 8,602,000 share purchase warrants (“JSCV Warrants”) to the Lenders. The JSCV Warrants are exercisable at \$0.93 and expire on the earlier of the repayment of the Convertible Loan or October, 2011. Funds raised upon exercise of the JSCV Warrants will be utilized to repay the Convertible Debt.

Interest is payable on this facility at LIBOR plus 2.8%. At December 31, 2007, the Company had drawn down all of the \$8.0 million (2006 - \$0.6 million) available under the Convertible Loan.

At December 31, 2007 and as a condition of the debt facility, certain funds of the Company, totalling \$0.1 million (2006 - \$16.2 million), were held in secured accounts to cover potential over-runs in the cost of completing the Varvarinskoye Project and to meet certain other financing costs associated with the facility. As at December 31, 2007 and 2006 these amounts are classified under “restricted cash” in the consolidated balance sheet.

As a condition of the debt facility, the Company implemented a hedging facility by entering into monthly US dollar flat forward gold sales (the “Varvarinskoye Hedge”) over a term of 8 years. The Company has sold 443,000 ounces of gold at a price of \$574.25 per ounce. The Varvarinskoye Hedge is un-margined with deliveries of gold into the hedge scheduled to commence in the first quarter of 2008. However, during the initial commissioning phase, the Company’s gold production has been insufficient to meet its hedge commitments and these commitments during fiscal 2008 have been settled utilizing cash totalling approximately \$6.2 million (see “Liquidity and Capital Resources” for further details).

The Varvarinskoye Hedge represents approximately 50% of the production during the term of the Hedging Facility, but only approximately 20% of the current estimates of proven and probable reserves of gold.

CICA Handbook Section 3865 “Hedges” (“CICA 3865”) establishes standards for when and how hedge accounting may be applied. See “Adoption of New Accounting Standards” for further information).

Management's Discussion and Analysis of Operating Results **continued**

None of the Company's derivative instruments comprised solely of gold forward sales contracts at January 1, 2007 and December 31, 2007 have been designated as hedges. Accordingly, such instruments that do not qualify for hedge accounting are required to be marked-to-market with changes in their fair value recognized as unrealized gains and losses in the financial statements in the period in which they occur.

Fair value estimates for derivative contracts are based on quoted market prices for comparable contracts and represent the amount the Company would have received from, or paid to, a counterparty to unwind the contract at the market rates in effect at the balance sheet date.

The adoption of CICA 3855 and 3865 gave rise to a transitional adjustment of \$69.6 million as at January 1, 2007. The unrealized loss recorded in the statement of income and deficit for the year ended December 31, 2007 was \$71 million. Up to December 31, 2006, the Company had designated these gold forward sales contracts as execution contracts.

If the Lenders were to terminate the debt facility, all fees already paid to the Lenders would be forfeited. Also, the Lenders would be in a position to enforce their security over the assets of JSCV and furthermore the Lenders, as hedging counterparties under the Varvarinskoye Hedge, would be entitled to terminate the hedges. The Company would be exposed for the full balance of any break costs associated with terminating the hedges.

Board and management appointments

On March 26, 2007 the Company appointed James Cole as the Company's Chief Financial Officer. Mr Cole was admitted to the Institute of Chartered Accountants of Scotland in 1990 and has gained extensive experience in international public companies. In 1996 he joined The African Lakes Corporation plc where he headed the finance function and was also Company Secretary and moved from there to be International Financial Controller for Ellesse International Limited. Prior to his appointment with the Company he was Chief Financial Officer of Crew Gold Corporation. Mr Cole spent almost four years with Crew Gold during a period of rapid growth for that organisation. Mr Stephen Gledhill, the former CFO, remains with EMC in an advisory capacity.

On March 26, 2007 the Company appointed James Cole as the Company's Chief Financial Officer. Mr Cole was admitted to the Institute of Chartered Accountants of Scotland in 1990 and has gained extensive experience in international public companies.

Results of Operations

Selected Annual Information

The following summary of the Company's selected annual information has been prepared in accordance with Canadian GAAP:

Expressed in thousands of United States dollars except per share amounts	2007	2006	2005
Interest income	1,341	1,794	1,195
Unrealized derivative losses	(70,980)	-	-
Investor relations	(456)	(240)	(266)
Administration	(6,211)	(2,466)	(1,616)
Legal and professional fees	(643)	(665)	(595)
Stock based compensation	(2,913)	(5,698)	(609)
Write off of property plant and equipment	-	(1,001)	-
Resource projects	(228)	(1,091)	(1,056)
Net loss for the year	(77,590)	(8,599)	(4,627)
Basic and diluted loss per share	\$(0.28)	\$(0.03)	\$(0.03)
Weighted average number of shares outstanding	281,732,000	259,837,000	160,264,000
Cash flow from operations	(19,922)	(3,423)	(3,942)
Cash and equivalents	25,250	19,554	9,474
Total assets	271,167	194,255	106,353
Total long term debt	50,120	13,847	-
Shareholders' equity	48,193	163,378	92,554

The Company's revenues for fiscal years ended 2007 and 2006 represent interest income on cash deposits held. Total revenues for fiscal year 2007 are \$1.3 million compared to \$1.8 million for 2006. The year-on-year decrease of \$0.5 million is attributable to the Company holding decreased cash balances in fiscal year 2007 over fiscal year 2006.

The adoption of CICA 3855 and 3865 gave rise to a transitional adjustment of \$69.6 million as at January 1, 2007 which was charged to opening deficit and an unrealized loss recorded in the Consolidated Statements of Operations, Comprehensive Loss and Deficit for the year ended December 31, 2007 of \$71 million.

Management's Discussion and Analysis of Operating Results **continued**

Calculation of earnings before Interest, tax, depreciation and amortization

Earnings before interest, tax, depreciation and amortization ("EBITDA") is a non-GAAP measure of performance that describes earnings before interest, taxes, depletion and depreciation, fair value losses or gains on forward obligations and non-cash foreign exchange movements.

The Company discloses this measure, which is based on its financial statements, because it considers this measure gives a greater understanding of the Company's operating results and financial position.

Expressed in thousands of United States dollars except per share amounts	2007	2006	2005
Net loss before tax, as reported	(79,410)	(8,927)	(4,627)
Interest	(1,341)	(1,794)	(1,195)
Write off of property, plant and equipment	-	1,001	-
Unrealized derivative losses	70,980	-	-
EBITDA	(9,771)	(9,720)	(5,822)
EBITDA per share	\$(0.02)	\$(0.03)	\$(0.03)

The Company's EBITDA for fiscal year 2007 is a loss of \$9.2 million compared to \$9.7 million for fiscal year 2006, a decrease of approximately \$0.6 million. The main reasons for year-on-year variations are as follows:

Administration costs of \$6.2 million have been recorded for fiscal year 2007 compared to \$2.5 million for 2006. The increase of \$3.7 million is in line with Management's expectations and reflects the cost of increasing the Company's management team, increased levels of corporate activity, staffing, travel and overheads necessitated by the growth in operations since last year. Stock based compensation for fiscal year charged to the Statement of Operations, Comprehensive Loss and Deficit for 2007 was \$2.9 million compared to \$5.7 million for fiscal year 2006, a decrease of \$2.8 million. During fiscal year 2007 the

Company awarded options to members of its Board, Management and key employees. An appropriate option award is considered to be an integral component in attracting and retaining key staff.

In the year ended December 31, 2005, the Company made supplier payments totalling \$1.0 million. These payments were made under the LSTK contract and included in the carrying value of Varvarinskoye property, plant and equipment at December 31, 2005. During the year ended December 31, 2006, the Company identified that during the transition from the LSTK to the EPCM, no ultimate benefit or betterment of the Varvarinskoye Project was derived from the costs incurred and consequently these amounts were written off in fiscal year 2006.

For the year and the quarter ended December 31 2007 and summary of quarterly results

Expressed in thousands of United States dollars except per share amounts	Dec 31 2007 (unaudited)	Sept 30 2007 (unaudited) (as restated)	June 30 2007 (unaudited) (as restated)	Mar-31 2007 (unaudited) (as restated)
Interest income	218	429	463	231
Unrealized derivative (losses)/gains	(32,523)	(34,779)	5,554	(9,232)
Investor relations	(85)	(172)	(141)	(58)
Administration	(2,351)	(1,243)	(1,474)	(1,143)
Legal and professional fees	(144)	(211)	(153)	(135)
Stock based compensation	48	(517)	(2,232)	(212)
Foreign exchange gains / (loss)	288	723	(201)	(90)
Resource projects	(315)	(74)	(69)	(210)
Net (loss)/profit for the period	(33,044)	(35,744)	1,747	(10,549)
EBITDA for the quarter	(2,269)	(1,349)	(4,270)	(1,548)
Basic and diluted loss per share	\$(0.12)	\$(0.13)	\$0.01	\$(0.04)
Weighted average number of shares outstanding	285,975,000	279,674,000	279,672,000	279,254,000
Total assets	271,167	227,717	210,270	195,414
Total long term debt	50,120	44,293	33,691	15,287
Shareholders' equity	48,193	58,136	89,333	83,592

As more fully explained under "Adoption of New Accounting Standards", the Company adopted CICA Handbook Section 3865 "Hedges" ("CICA 3865") which establishes standards for when and how hedge accounting may be applied. Subsequent to filing its financial statements for Quarter 1, 2 and 3 for fiscal year 2007, the Company reappraised the accounting treatment of its derivative instruments and concluded that these should be recorded at fair value. Accordingly, these financial statements have been restated to reflect the marked-to-market valuations of these derivatives and to recognize with changes in their fair value as unrealized gains and losses in the financial statements in the period in which they occur. The impact of the transition was \$69.6 million charged to opening deficit.

Management's Discussion and Analysis of Operating Results **continued**

Expressed in thousands of United States dollars except per share amounts	Dec 31 2006 (unaudited)	Sept 30 2006 (unaudited)	June 30 2006 (unaudited)	Mar 31 2006 (unaudited)
Interest income	421	636	666	71
Unrealized derivative losses	-	-	-	-
Investor relations	(37)	(105)	(50)	(48)
Administration	(767)	(573)	(835)	(291)
Legal and professional fees	(285)	(143)	(32)	(205)
Stock based compensation	(1,674)	(952)	(2,809)	(263)
Foreign exchange gains / (loss)	(1,193)	(322)	989	86
Write off of property, plant and equipment	(1,001)	--	--	--
Resource projects	(105)	(644)	(289)	(53)
Net loss for the quarter	(3,343)	(2,103)	(2,360)	(703)
EBITDA for the quarter	(3,854)	(2,739)	(3,026)	(774)
Basic and diluted loss per share	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.00)
Weighted average number of shares outstanding	276,932,000	277,436,000	276,101,000	205,718,000
Total assets	194,225	177,530	176,316	192,678
Long term debt	13,847	-	-	-
Shareholders' equity	163,378	159,385	160,610	157,394

Financial results for the quarter ended December 31 2007

Income for the quarter ended December 31, 2007 ("Q4, 2007") consisted of interest receivable of \$0.2 million compared with \$0.4 million for the quarter ended December 31, 2006 ("Q4, 2006"). This decrease is a result of lower average cash balances during Q4, 2007 compared with Q4 2006.

As more fully explained under "Adoption of New Accounting Standards", the Company adopted CICA Handbook Section 3865 "Hedges" ("CICA 3865") which establishes standards for when and how hedge accounting may be applied. This standard was applied to fiscal 2007 with no restatement of prior years's results. As a result of this the Company recorded an unrealized derivative loss of \$32.5 million for Q4, 2007 with no comparable number for Q4, 2006.

Administrative expenses for Q4, 2007 are \$1.8 million compared to \$0.8 million for Q4, 2006. This is a result of the increased operations over Q3, 2006. In addition bonuses were paid to staff following the completion of the construction of the Plant at Varvarinskoye Project.

Foreign exchange gains in Q4, 2007 were \$0.3 million compared to \$1.2 million for \$Q4, 2006. The Company's functional currency is US dollars. The Company's expenses are denominated in US Dollars, British Pounds, Kazakh Tenge and South African Rand. During fiscal years 2007 and 2006, the Company also held significant levels of funds in Canadian dollars. Consequently the Company was susceptible to currency variations.

Factors that have caused fluctuations in the Company's quarterly results include the movements in the gold prices against the forward sales values on the Varvarinskoye Hedge, timing of expenditures on exploration and development activities, stock option grants and their capitalization, income taxes and the write-offs of mineral property costs previously capitalized. As the Varvarinskoye Project is not in commercial production the Company believes that its loss (and consequent loss per share) is not a useful measure of the Company's value.

Liquidity and capital resources

At December 31, 2007 the Company's main source of liquidity was unrestricted cash of \$25.2 million (2006 - \$19.6 million).

At December 31, 2007, the Company's consolidated working capital comprising free cash, inventories, accounts receivable and prepaids and less accounts payable was \$30.8 million compared to \$8.3 million at December 31, 2006 representing an increase of \$22.5 million. The increase in working capital arose as a result of increased cash resources of \$5.7 million on a year-on-year basis generated from the proceeds of share issuances and long-term debt, net of capital expenditure, and, following the completion of construction at Varvarinskoye, the recognition of inventories of \$18.7 million (2006 - \$nil), an increase in accounts receivable and prepaid expenses by \$0.6 million offset by an increase in accounts payable and accrued liabilities of \$2.4 million. Factoring in the current portion of long-term debt and derivative instruments, the Company had a working capital deficit of \$20.8 million at December 31, 2007 (2006 - positive working capital of \$8.3 million)

The Company's spending incurred on the Varvarinskoye Project and its working capital requirements during fiscal year 2007 has been financed through a combination of debt, utilization of restricted cash and equity.

On December 18, 2007, the Company issued a total of 17,496,875 common shares of no par value Company at a price of \$1.28 per share, for aggregate gross proceeds of approximately \$22 million in connection with a private placement. The Company raised these funds to fund advancement of its mineral projects and for general corporate purposes. The common shares rank pari passu with the existing common shares in the Company.

In 2006, the Company concluded negotiations on the debt facility to finance the remaining capital spend on the Varvarinskoye Project. Over the course of fiscal year 2007, the Company drew down \$46.4 million from the debt facility (2006 - \$13.8 million), leaving total debt outstanding at December 31, 2007 of \$60.2 million. As at December 31, 2007, the debt facility was considered fully utilized.

At December 31, 2007, the Company had restricted cash of \$0.1 million (December 31, 2006 - \$16.2 million), which comprised funds not available for general or other purposes. These funds were originally set aside as part of the covenants relating to the debt facility. The total set aside to cover potential cost over-runs in the completion of the Varvarinskoye Project as at December 31, 2006 was \$15 million. This balance was fully utilized on spend on the Varvarinskoye Project during fiscal 2007 leaving a balance of \$nil at December 31, 2007. At December 31, 2007, \$0.1 million (December 31, 2006 - \$1.2 million) was held to cover certain other costs to be incurred in relation to the debt facility.

Management's Discussion and Analysis of Operating Results continued

As a condition of the debt facility, the Company implemented the Varvarinskoye Hedge. The Company has sold 443,000 ounces of gold at a price of \$574.25 per ounce. The Varvarinskoye Hedge is un-margined with deliveries of gold into the hedge originally scheduled to commence in the first quarter of 2008. However, during the initial commissioning phase, the Company's gold production has been insufficient to meet its hedge commitments and these commitments have been settled utilizing cash totalling approximately \$6.3 million to the date of this MD&A. See "Outlook" for further details.

The Company continues to have discussions with its lenders with the objective of deferring immediate hedge and loan repayment commitments and aligning these with the establishment of commercial production at Varvarinskoye. There can be no guarantee that these discussions will result in a deferral of its loan and hedge commitments and if not, further payments may be required.

Based on the market price of gold at December 31, 2007, the Company has recorded an unrealized derivative liability of \$140.6 million.

Project capital spend during the year ended December 31, 2007 was \$87.1 million (2006 - \$80.3 million). This represents amounts spent on the Varvarinskoye Project and includes capitalized stock option costs of \$1.9 million (2006 - \$1.8 million), capitalized interest and finance charges of \$3.1 million (2006 - \$0.1 million), amortized deferred finance costs of \$6.2 million (2006 - \$0.1 million) \$8.3 million (2006 - \$2.6 million) relating to asset retirement obligations and property, plant and equipment of approximately \$67.6 million.

Commitments

The following table summarizes the capital and other long-term commitments of the Company as at December 31, 2007:

	Total	2008	2009	2010
	\$	\$	\$	\$
Long-term debt	60,214	32,475	23,914	3,825
Capital commitments	6,750	6,750	-	-
	66,964	39,225	23,914	3,825

(1) Under the terms of a sub-soil agreement (and the amendments thereto) with the Government of Kazakhstan, the Company has agreed to repay certain historic costs that the Republic of Kazakhstan incurred for a geological survey of the license area. These costs are repayable after both of the following events have taken place: i) the first discovery of a reserve in the license area and ii) the completion of the first year (not earlier than the year in which the discovery in i) occurs) during which the licensee has a net profit for tax purposes.

The Company anticipates achievement of full commercial production at its Varvarinskoye Project by the end of Q3 2008. The Company anticipates that achievement of commercial production and subsequent sales of gold will generate sufficient cash to repay the Company's long-term debt and its other long term obligations. In order to meet ongoing commitments, to provide adequate working capital prior to the commencement of commercial production, the Company is currently seeking to raise additional and appropriate finance and to renegotiate its current lending arrangements.

Although the Company has been successful in the past in raising equity and debt finance, there can be no assurance that any funding required by the Company will be made available to it and, if such funding were to be available, that it would be offered on reasonable terms or that the Company would be able to secure such funding through third-party financing or joint ventures.

If the Company is unable to raise such financing prior to the commencement of commercial production, it may not be able to meet its ongoing working-capital, hedge, loan and capital commitments, these circumstances cast significant doubt on the Company's ability to continue as a going concern. As a result material adjustments could be required to the carrying value of assets and liabilities and the balance sheet classifications used and the reported amounts of income and expenses.

Transactions with related parties

During the years ended December 31, 2007 and 2006, the Company entered into the following transactions involving related parties.

Dragon Management International Services Limited ("DIS") charged the Company a total of \$603,000 (2006 - \$394,000) in respect of the provision of office facilities, general office overheads and re-charged costs incurred on behalf of the Company. The provision of office facilities operates on an ongoing basis and may be terminated by either party upon one month's notice given to the other. A. J. Williams, Chairman and a director of the Company, beneficially owns DIS.

Dragon Capital Holdings Limited ("DCH") charged the Company a total of \$525,000 (2006 - \$327,000) in respect of the provision of the services of A. J. Williams to act as Chairman of the Company. The term of the agreement is ongoing and may be terminated by the Company upon payment to DCH of a lump sum amount equal to 300% of the annual fee. DCH may terminate the agreement upon not less than three month's written notice to the Company. A. J. Williams, also a director of the Company, beneficially owns DCH.

Mining Assets Corp ("MAC") charged the Company a total of \$67,000 (2006 - \$75,000) in respect of the provision of the consulting services and related expenses of B. D. Rayment. MAC provides services to the Company on an ad-hoc basis. B. D. Rayment, a director of the Company, beneficially owns MAC.

Sutton International Management Services Limited ("SIMS") charged the Company a total of \$700,000 (2006 - \$372,000) in respect of the provision of geological, mining, management and administration services as well as the services of W. G. Kennedy to act as President and Chief Executive Officer of the Company. The term of the agreement is ongoing and may be terminated by the Company upon payment to SIMS of a lump sum amount equal to 300% of the annual fee. SIMS may terminate the agreement upon not less than three month's written notice to the Company. W. G. Kennedy, a director of the Company, beneficially owns SIMS.

Endeavour Financial Corp ("EFC") charged the Company a total of \$144,000 (2006 - \$820,000) in respect of the provision of consulting services and related expenses. The amounts charged by EFC for fiscal year 2006 includes success fee of \$700,000 payable on completion of the debt facility and subsequent initial draw-down. The term of this agreement is ongoing and may be terminated by either the Company or EFC upon giving thirty days written notice to the other. A. J. Williams, Chairman and a director of the Company, is a shareholder of EFC.

Management's Discussion and Analysis of Operating Results **continued**

Keshill Consulting Associates Inc. ("KCA") charged the Company a total of \$10,000 (2006 - \$67,000) in respect of the provision of consulting services as well as the services of S. Gledhill to act as Chief Financial Officer of the Company during the first quarter of fiscal 2007. The term of this agreement is ongoing and may be terminated by either the Company or KCA upon giving thirty days written notice to the other. S. Gledhill, the former Chief Financial Officer of the Company beneficially owns KCA.

As at December 31, 2007, a total of \$151,000 (2006 - \$820,000) was due to related parties. All amounts payable pursuant to the above related party transactions are non-interest bearing and all outstanding balances are included in accounts payable.

Outlook

The Company achieved its primary objective for 2007 and by the end of the fiscal year, the construction phase at Varvarinskoye had been completed, the commissioning process had commenced and the first gold had been produced. The Company was also honored to have welcomed President Nazarbayev to the Varvarinskoye site in September 2007.

The commissioning of the flotation circuit commenced in February 2008. The target for 2008 is to manage the ongoing commissioning process and build up daily throughput of tonnage of ore in both the gold leach and copper circuits until the process plant reaches its design rate of 4.2 million tonnes of pre per annum.

At December 31, 2007 the Company had unrestricted cash of \$25.2 million. Owing to delays during the commissioning process, the Company's gold production has proved insufficient to meet its hedge commitments. Prior to the year end, the Company commenced a dialogue with its lenders to redress the situation but these discussions have yet to be concluded. As a result, since the year end, certain hedge commitments have had to be settled utilizing cash totalling approximately \$6.2 million to the date of this MD&A. The Company continues discussions with its lenders with the objective of deferring immediate hedge and loan repayment commitments and aligning these with the establishment of commercial production at Varvarinskoye.

As the discussions with the Company's Lenders have not been concluded, Management is actively pursuing alternative sources of additional funding to secure the Company's treasury position until such time as the cash flows from Varvarinskoye are established at levels sufficient to meet ongoing working capital, debt, hedging and other capital commitments.

The Company's latest mine plan for Varvarinskoye, reflecting the metal prices and operating costs used to calculate the updated estimates of mineral resources and reserves, scheduled and optimized by Orelogy and applying the assumptions and parameters as discussed under "reserves" on page 5 of this MD&A, anticipates annual gold production of 149,000 ounces in years one to three of the project at an estimated cash cost, after copper credits, of \$127 per ounce. Over the estimated 17 year mine life average annual gold production is estimated to be 120,000 per annum ounces at an estimated cash costs, after copper credits, of \$261 per ounce.

Exploratory drilling will continue to delineate additional mineralization below the planned pit bottom and within the 220 sq km exploration licence surrounding Varvarinskoye. Additionally Management are also investigating potential expansion of the plant facilities at Varvarinskoye to enhance production levels beyond current plans.

Management continue to seek new opportunities to add to the Company's portfolio of assets and remain confident the evolution of Varvarinskoye from a development project to an established commercial mining operation will provide a strong foundation for the Company's future growth.

Critical accounting estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. Actual results could differ from those estimates.

Carrying Value of Resource Assets

In preparing mineral reserve estimates, information is based partly on statistical inferences drawn from drilling and other data, which may prove to be unreliable. Future production estimates could vary materially from current estimates due to differences in actual mineralisation, compared to mineralisation estimated by sampling, variations in the grade of mineral reserves, as well as other factors that are beyond the control of the Company, for example, increases in mining, processing and reclamation costs and decreases in the market value of the end product. Significant estimates include assessments of the potential impairment of the carrying value of resource assets. Actual results could differ from those estimates.

Additionally, development projects have no operating history upon which to base estimates of future cash operating costs. For development projects such as the Varvarinskoye Project, estimates of proven and probable reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies. This information is used to calculate estimates of the capital costs, cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. In addition, there remains to be undertaken certain geotechnical, water management and environmental work on the Varvarinskoye Project that could adversely impact estimates of capital and operating costs of the Varvarinskoye Project. It is possible that the actual capital cost, cash operating costs and economic returns of the Varvarinskoye Project may differ from those currently estimated and such differences could have a material adverse effect on EMC's business and financial condition.

Asset Retirement Obligations

The Company has obligations for site restoration and decommissioning related to its Varvarinskoye Project. The Company, using mine closure plans or other similar studies that outline the requirements planned to be carried out, estimates the future obligations from mine closure activities. Because the obligations are dependent on the laws and regulations of the country in which the project is based, the requirements could change resulting from amendments in those laws and regulations relating to environmental protection and other legislation affecting resource companies.

Management's Discussion and Analysis of Operating Results **continued**

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of mineral property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

As the estimate of obligations is based on future expectations, in the determination of closure provisions, management makes a number of assumptions and judgments. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out. Actual costs incurred in future periods related to the disruption to date could differ materially from the \$11.4 million discounted future value estimated and recorded by the Company at December 31, 2007.

Income Taxes

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset future income tax payable requires management to exercise judgment and make assumptions about the future performance of the Company. Management is required to assess whether the Company is "more likely than not" to benefit from these tax losses. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Termination of LSTK

During the year ended December 31, 2005, the Company made construction advances totalling approximately \$7.5 million under the terms of an interim agreement with MDM, dated March 18, 2005. The advances were primarily for payment of sub-contractors engaged by MDM as well as for MDM management fees. In September 2005, the interim agreement with MDM was replaced by the LSTK, pursuant to which MDM was to provide all design, engineering, project management, agreed equipment procurement and purchase, construction, commissioning, performance testing, training and other services required to bring the Project into operation.

Between October 1, 2005 and December 31, 2005, the Company made further construction advances totalling \$8.7 million, bringing the total construction advances made to MDM to approximately \$16.2 million. A further \$1.2 million was advanced directly by JSCV to JSC Consolidated Development Corporation ("CDC"), the main subcontractor at the Varvarinskoye Project. During January and February 2006, the Company made further construction advances to CDC of \$0.8 million and a further \$1.0 million directly to suppliers.

At the time of the cancellation of the LSTK, various suppliers (the "Suppliers") were in various stages of providing the components that they had agreed to supply to MDM. Amounts remained owing by MDM to certain Suppliers who had completed their obligations and to certain other Suppliers who had not completed their obligations and who indicated that they would not do any further work without receiving satisfactory assurances that they would receive the balance of amounts owing to them.

In November 2005, prior to being placed into provisional liquidation, MDM assigned all of its rights and obligations under its contracts with the Suppliers to JSCV under the Cession. All suppliers have advised JSCV that if necessary, they are prepared to be bound by the Cession and deal directly with JSCV. JSCV has provided an indemnity to certain of the Suppliers for any losses which may be suffered by them based on any claims made by the liquidator appointed to oversee the affairs of MDM, including applying to a court to set aside the Cession and/or pursue claims against JSCV and/or the Suppliers for damages.

In April 2008, the liquidator of MDM revived a claim against the Company in relation to the termination of the LSTK. As a result the Company may suffer losses and these could be material and could have a material adverse effect on EMC's business and financial condition. See "Varvarinskoye Project – Termination of lump sum turnkey contract ("LSTK")" for additional information.

Risk factors

The Company and its projects must be considered in light of the risks, expenses and difficulties frequently encountered by companies engaged in the acquisition, exploration and development of mineral properties. These risk factors could materially affect the Company's future operating results and cause actual future events to differ materially from those described in this MD&A. The risks below are not the only ones facing the Company. Additional risks not currently known to the Company or that the Company deems trivial may also impact the Company's operations. The key risk factors are outlined below.

Liquidity Risk

Liquidity risk measures the risk that the Company may not be able to meet its liabilities as they fall due. The commissioning of the Plant at Varvarinskoye, the establishment of a commercial mining production, the ability to meet future debt obligations as they become due, as well as hedge and capital commitments, may require additional financing. Failure to obtain such financing, and/or sufficient financing for the exploration and development of any future projects, may result in a delay or indefinite postponement of exploration, development or production on the Company's properties. The only sources of funds currently available to the Company is through the issue of equity capital, the sale of properties, the entering into of joint ventures or incurring debt. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders.

Management's Discussion and Analysis of Operating Results **continued**

Currency Risk

EMC's costs are incurred primarily in United States dollars, British Pounds Sterling, South African Rand and the Tenge (the currency of Kazakhstan). Changes in the currency exchange rates of the United States dollar against the British Pound Sterling, South African Rand or the Tenge (i) may affect the capital costs of the Varvarinskoye Project and (ii) will affect the results presented in the Company's financial statements by causing its earnings to fluctuate period over period. Also, as the Company reports its financial position in United States dollars any cash or other asset balances that are held by the Company in other currencies are valued using exchange rates in effect at the balance sheet date. Differences between amounts carried in the foreign currency and the US dollar equivalent are expensed in the current period.

Interest Rate Risk

Monetary assets and liabilities are subject to the risk of movements in interest rates. At December 31, 2007 the Group had total term debt of \$60.2 million denominated in US dollars. These liabilities are held at terms linked to LIBOR interest rates.

At December 31, 2007, the Company held a total of \$25.3 million of unrestricted cash on deposit. \$25.0 million of this balance was held in the United Kingdom, \$0.1 million held in Canada, \$0.2 million in Kazakhstan. These deposits are held in the relevant local currency at floating interest rates. Interest rates are commercial rates, which are fixed by reference to LIBOR for Canadian dollar and sterling assets, or the applicable inter-bank interest rates for financial assets held in other currencies.

Resources, Reserves and Production

No assurance can be given that the anticipated level of recovery and/or grades of reserve or resource estimates as previously disclosed by EMC will be realised. Moreover, short-term operating factors relating to ore reserves and resources, such as the need for orderly development of an orebody or the processing of new or different ore grades, may cause a mining operation to be unprofitable in any particular accounting period. The effect of these factors could have a material adverse effect on EMC's business and financial condition.

Risks Associated with Debt Facility

The Company believes it will be able to raise sufficient working capital to complete the construction of the facilities necessary to place the Varvarinskoye Project into commercial production and also to meet its ongoing hedge and loan commitments. If the Company was unable to meet hedge and debt commitments or otherwise breached its covenants under these facilities, the Lenders could decide to terminate the Debt Facility and/or the Varvarinskoye Hedge or enforce their security over the Varvarinskoye Project or the shares of JSCV. If this were to occur, the Company would be responsible for additional fees, costs and expenses owing to the Lenders, including the costs associated with terminating the Varvarinskoye Hedge, which could have a material adverse effect on EMC's business and financial condition. If the Lenders were to enforce their security, EMC could lose its interest in the Varvarinskoye Project. The participation of ECIC in providing political and commercial risk insurance for the Varvarinskoye Project is also a condition of drawdown under the Debt Facility. As a condition of providing such insurance, ECIC requires that a minimum level of South African sourced good and services be used in the Varvarinskoye Project. If the Company is not able to satisfy such requirement, the ECIC insurance could be withdrawn and the Lenders would have the right to terminate the Debt Facility. No assurance can be given that such participation will be achieved.

Use of Gold Hedging Facility and Derivatives

The debt facility bears interest at a rate based on LIBOR. Any increase in interest rates may have a material adverse effect on EMC's business and financial condition.

The Company holds certain financial instruments, the most significant of which are gold forward contracts held as part of the Varvarinskoye Hedge. These instruments are all recorded at fair values on the Company's balance sheet with gains and losses in each period included in other comprehensive income or net deficit as appropriate. Fair value estimates for derivative contracts are based on quoted market prices for comparable contracts and represent the amount the Company would have received from, or paid to, a counterparty to unwind the contract at the market rates in effect as at the balance sheet date. Precious and base metal prices fluctuate on a daily basis and are affected by numerous factors beyond EMC's control. A decrease in precious and base metal prices could have a material adverse effect on EMC's business and financial condition. The Lenders have required JSCV to maintain the Varvarinskoye Hedge and the Lenders may require JSCV to use other derivative products to manage the risks associated with changes in interest rates and foreign currency exchange rates. The use of derivative instruments (including the Varvarinskoye Hedge) involve certain inherent risks including: (a) credit risk — the risk of default on amounts owing to JSCV by the counterparties with which JSCV has entered into such transaction; (b) market liquidity risk — the risk that JSCV has entered into a derivative position that cannot be closed out quickly, by either liquidating such derivative instrument or by establishing an offsetting position; and (c) market to market risk - the risk that, in certain derivative products an adverse change in market prices for metals, currencies or interest rates will result in JSCV recognizing a loss in respect of such derivative products.

Development Projects

In general, development projects have no operating history upon which to base estimates of future cash operating costs. For development projects such as the Varvarinskoye Project, estimates of proven and probable reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies. This information is used to calculate estimates of the capital costs, cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the orebody, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. It is possible that the actual capital cost, cash operating costs and economic returns of the Varvarinskoye Project may differ from those currently estimated and such differences could have a material adverse effect on EMC's business and financial condition.

Development Targets and Operational Delays

There can be no assurance that EMC will be able to achieve commercial production on time or to budget due to, among other things, delays in receiving required consents, permits and registrations, the delivery and installation of plant and equipment and additional cost overruns, or that the current personnel, systems, procedures and controls will be adequate to support EMC's operations. Any additional failure to meet development targets or other operational delays or inadequacies could have a material adverse effect on EMC's business and financial condition.

Management's Discussion and Analysis of Operating Results continued

Health, Safety and Environmental Laws

JSCV's activities are subject to supervision from the Kazakh state authorities (environmental authorities, subsoil protection, state technical supervision, sanitary epidemiological station). In addition to this, JSCV is currently implementing the Equator Principles which are a financial industry benchmark for determining, assessing and managing social & environmental risk in projects.

These laws and regulations set standards regulating mining operations and related aspects of health, safety and environmental quality, provide for use fees, penalties and other liabilities for the violation of those standards and establish obligations to remediate current and former mines, facilities and off-site locations. JSCV's operations in Kazakhstan are subject to periodic inspection by government environmental protection and other state agencies. JSCV could incur significant liability for damages, clean-up costs or penalties in the event of certain discharges into the environment or environmental damage caused by non-compliance with environmental laws or regulations. That liability could have a material adverse effect on EMC's results of operations. Moreover, EMC cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory agency, could in the future require material expenditures by JSCV for the installation and operation of systems and equipment for remedial measures, any or all of which could have a material adverse effect on EMC's business and financial condition.

Termination of LSTK

Under the LSTK, MDM engaged various suppliers to design and supply various components of the processing plant for the Varvarinskoye Project. Payment for such components was made by MDM as the designated purchaser, either on an instalment or a cash-on-delivery basis, using funds provided by JSCV. Shortly after the termination of the LSTK, MDM was placed in provisional liquidation by another creditor. At the time of the termination of the LSTK, the suppliers were in various stages of manufacturing the components that they had agreed to supply to MDM. Amounts remained owing by MDM to certain suppliers that had completed their obligations and certain other suppliers that had not completed their obligations indicated that they would not do any further work without receiving satisfactory assurances that they would receive the balance of amounts owing to them.

In November 2005, prior to being placed into provisional liquidation, MDM assigned all of its rights and obligations under its contracts with the suppliers to JSCV under a cession agreement (the "Cession"). All significant suppliers have verbally advised JSCV that they are prepared to be bound by the Cession and deal directly with JSCV. JSCV has provided an indemnity to certain of the Suppliers for any losses which may be suffered by them based on any claims made by the liquidator appointed to oversee the affairs of MDM, including applying to a court to set aside the Cession and/or pursue claims against JSCV and/or the Suppliers for damages. In April 2008, the liquidator of MDM revived a claim against the Company in relation to the termination of the LSTK. As a result the Company may suffer losses and these could be material and could have a material adverse effect on EMC's business and financial condition. See "Varvarinskoye Project – Termination of lump sum turnkey contract ("LSTK")" for additional information.

On February 28, 2006 an officer of MDM, purporting to act on behalf of MDM, issued a letter to JSCV asserting that JSCV was improperly using information proprietary to MDM, asserting various claims against JSCV and claiming damages in the aggregate amount of approximately \$13.8 million for amounts alleged to be owing under the LSTK and for the alleged use of MDM's technology, as well as unspecified civil damages. EMC has received preliminary advice from its English and South African legal counsel. The South African counsel have advised that, among other things, since MDM is in liquidation proceedings, MDM's directors and officers have no authority under South African law to represent MDM in any way. EMC's English counsel have advised that, under the terms of the LSTK, JSCV is entitled to use any of the documents and designs that MDM had prepared for JSCV under the LSTK in order to complete the work that MDM had contracted to complete. Based on this advice, the Company believes that MDM's allegation of improper use of proprietary information is without merit. The Company also believes that the monetary claims are without merit and intends to vigorously defend any legal action that may be commenced by MDM or any other party in relation to the matters referred to in such letter or otherwise in connection with the termination of the LSTK. The Company is not currently able to accurately assess the potential impact of any such action, although such impact may have a material adverse effect on EMC's business and financial condition.

Insurance Risk

EMC faces all of the hazards and risks normally incidental to the exploration, development, mining and production of precious and base metals, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all such damage caused. EMC's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which EMC has interests. EMC may also be subject to political risks in Kazakhstan and elsewhere.

Hazards, such as unusual or unexpected geological conditions, pit wall failure, slumping and flooding or other conditions may be encountered in the drilling and removal of material in open pit mining. EMC may incur a liability to third parties (in excess of any insurance coverage) arising from damage or injury. Currently, EMC has all the necessary insurance policies in place that it needs to develop the Varvarinskoye Project. There are also risks against which EMC cannot insure or against which it may elect not to insure because of high premium costs. The potential costs that could be associated with any liabilities not covered by insurance which may be, but is not, taken out or in excess of insurance coverage actually taken out may cause substantial delays and require significant capital outlays, adversely affecting EMC's earning and competitive position in the future and, potentially, its financial position.

Precious Metal and Base Metal Prices

The profitability of any precious or base metal mining operation in which EMC has an interest will be significantly affected by changes in the market price of precious and base metals. Precious and base metal prices fluctuate on a daily basis and are affected by numerous factors beyond EMC's control. The level of interest rates, the rate of inflation, world supply of precious and base metals and stability of exchange rates can all cause significant fluctuations in precious and base metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The price of precious and base metals has historically fluctuated widely and future price declines could cause commercial production to be uneconomical and such fluctuations could have a material adverse effect on EMC's business and financial condition.

Management's Discussion and Analysis of Operating Results **continued**

Speculative Nature of Mineral Exploration

The exploration of mineral deposits involves significant financial risks over a prolonged period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties that are explored are ultimately developed into economically viable operating mines. Major expenditure on EMC's exploration properties may be required in constructing mining and processing facilities at a site, and it is possible that even preliminary due diligence will show adverse results, leading to the abandonment of projects. It is impossible to ensure that preliminary feasibility studies or full feasibility studies on EMC's projects or the current or proposed exploration programmes on any of the properties in which EMC has exploration rights will result in a profitable commercial mining operation. EMC cannot give any assurance that its current and future exploration activities will result in the discovery of mineral deposits containing mineral reserves.

Whether a precious metal or a base metal deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit (such as its size and grade), proximity to infrastructure, financing costs and governmental regulations (including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of precious metals or base metals concentrates, exchange control and environmental protection). The effect of these factors cannot be accurately predicted, but the combination of these factors may have a material adverse effect on EMC's business and financial condition.

Competition

The mineral exploration and mining business is competitive in all of its phases. EMC competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than EMC, in the search for and acquisition of exploration and development rights on attractive mineral properties. EMC's ability to acquire exploration and development rights on properties in the future will depend not only on its ability to develop the properties on which it currently has exploration and development rights, but also on its ability to select and acquire exploration and development rights on suitable properties. There is no assurance that EMC will compete successfully in acquiring exploration and development rights on such properties and such inability could have a material adverse effect on EMC's business and financial condition.

Limitations on Foreign Control, Operation and Management of Mining Companies

There are currently no restrictions on the foreign control, operation and management of mining companies in Kazakhstan. However, there can be no assurance that legal requirements as to the foreign control, operation and management of mining companies in such jurisdiction will not change and any such change could have a material adverse effect on EMC's business and financial condition.

Key Personnel

EMC relies on a limited number of key employees and consultants and there is no assurance that EMC will be able to retain such key employees, consultants or other senior management. The loss of one or more of such key employees, consultants or members of senior management, if not replaced, could have a material adverse effect on EMC's business and financial condition.

Adoption of new accounting standards

Effective January 1, 2007, the Company adopted the revised CICA Section 1506 "Accounting Changes" which require that: (i) voluntary changes in accounting principles can be made if, and only if, the changes result in more reliable and relevant information, (ii) changes in accounting policies are accompanied by disclosures of prior period amounts and justification for the change, and (iii) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

Effective January 1, 2007, the Company adopted the three new accounting standards and related amendments to other standards on financial instruments issued by the CICA. Prior periods have not been restated.

(a) Financial Instruments -

Recognition and Measurement, Section 3855

The standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based methods are used to measure the recorded amounts. It also specifies how financial instruments gains and losses are to be presented. Effective January 1, 2007, the Company's cash and cash equivalents and restricted cash have been classified as available-for-sale and are recorded at fair value on the balance sheet. Fair values are determined directly by reference to the published price quotations in an active market. Unrealized gains and losses on these instruments are reflected in other comprehensive income and included in shareholders' equity on the balance sheet.

All other financial instruments will be recorded at cost or amortized cost, subject to impairment reviews. The criteria for assessing other-than-temporary impairment remain unchanged. Upon adoption entities have the option to expense transaction costs or to continue to defer them. The Company elected to continue to defer financing costs and to recognize these over the expected life of the resulting instrument using the effective interest method of amortization. Transaction costs incurred to acquire financial instruments are included in the underlying balance. As a result of the adoption of Section 3855, unamortized deferred financing costs relating to long term debt totalling \$13.1 million have been reclassified from assets and have been off-set against the convertible and long term loan balances in the balance sheet as at January 1, 2007. These are amortized over the period of the debt using the effective interest method.

(b) Hedges, Section 3865

CICA Handbook Section 3865 "Hedges" ("CICA 3865") establishes standards for when and how hedge accounting may be applied. Specifically, hedge accounting may be applied only when gains, losses, revenues and expenses on a hedging item would otherwise be recognized in net income in a different period than gains, losses, revenues and expenses are recognized on the hedged item. The Company adopted CICA 3865 with effect from January 1, 2007. The Company has determined that the derivative instruments currently in place do not meet the requirements of CICA 3865 to qualify them as hedges. Accordingly, such instruments that do not qualify for hedge accounting are required to be marked-to-market with changes in their fair value recognized as unrealized gains and losses in the financial statements in the period in which they occur. The adoption of CICA 3865 gave rise to a transitional adjustment of \$69.6 million as at January 1, 2007 which was charged to opening deficit. The unrealized loss recorded for the year ended December 31, 2007 was \$71 million.

Management's Discussion and Analysis of Operating Results **continued**

Recent Accounting Pronouncements

(c) Comprehensive Income, Section 1530

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realised. The Company holds no marketable securities, does not have any self sustaining foreign subsidiaries and does not apply hedge accounting. Accordingly, the consolidated statement of comprehensive income and the balance sheet do not contain any other comprehensive income items.

(d) Convertible and other debt instruments with Embedded Derivatives

Effective March 5, 2007, the Company adopted the CICA Emerging Issues Committee Abstract 164 (EIC-164): No transitional adjustments arose from the adoption of EIC -164.

(e) Deferred stripping costs

Effective January 1, 2007, the Company adopted the CICA Emerging Issues Committee Abstract 160 (EIC-160), "Stripping Costs Incurred in the Production Phase of a Mining Operation". EIC-160 requires stripping costs to be accounted for as variable production costs to be included in the costs of inventory produced, unless the stripping activity can be shown to be a betterment of the mineral property, in which case the stripping costs will be capitalized. Betterment occurs when stripping activity increases future output of the mine by providing access to additional sources of reserves. Capitalized stripping costs will be amortized on a unit of production basis over the proven and probable reserves to which they relate.

(i) The CICA plans to transition Canadian GAAP for public companies to International Financial reporting Standards ("IFRS"). The effective changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

(ii) In February 2007, the CICA issued Section 1535, "Capital Disclosures" which is effective for fiscal years beginning on or after October 1, 2007. This standard requires disclosure of information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. The Company will adopt this standard commencing in the 2008 fiscal year and is not expected to have a significant effect on the Company's financial statements.

(iii) CICA Handbook Section 3064, Goodwill and Intangible Assets, establishes revised standards for recognition, measurement and presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27. Revenues and Expenses during the pre-operating period. As a result of the withdrawal of EIC 27, companies will no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations. The changes are effective for interim and financial statements beginning January 1, 2009.

(iv) In February 2007, the CICA issued Section 3862 “Financial Instruments— Disclosure” (“Section 3862”) and Section 3863 “Financial Instruments — Presentation” (“Section 3863”), which are effective for fiscal years beginning on or after October 1, 2007. The objective of Section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments for the Company’s financial position and performance and the nature and extent of risks arising from financial instruments that the Company is exposed to during the reporting period and the balance sheet date and how the Company is managing those risks. The purpose of Section 3863 is to enhance the financial statement user’s understanding of the significance of financial instruments to the Company’s financial position, performance and cash flows. The Company will adopt this standard commencing in the 2008 fiscal year.

Other Information

Additional Information

Additional information relating to the Company, including the Company’s Annual Information Form, may be accessed through SEDAR on the Internet at www.sedar.com.

Disclosure of Outstanding Share Data

The following table sets forth information concerning the outstanding securities of the Company as at April 11, 2008:

Common shares of no par value (“Shares”)	Number in issue
Shares	303,877, 981
Share purchase options ⁽¹⁾	22,815,000
Share purchase warrants ⁽¹⁾	130,441,639
Total	457,134,620

⁽¹⁾ Each share purchase warrant and share purchase option entitles the holder thereof to purchase one Share.

EMC is authorised to issue 100 billion Shares.

Management's Discussion and Analysis of Operating Results **continued**

Management's Responsibility for Financial Reporting and Controls

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the year ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant, material information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators) and other reports filed or submitted under Canadian securities laws is recorded,

processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Chief Executive Officer and Chief Financial Officer acknowledge responsibility for the design of internal control over financial reporting ("ICFR").

An evaluation was carried out by the Company's Chief Executive Officer and Chief Financial Officer on the effectiveness of the Company's ICFR controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the ICFR controls and procedures to ensure information required to be disclosed by the Company, in reports that it files or submits under securities and other legislation, were not wholly effective as of December 31, 2007.

Since December 31, 2007 the Company has restructured its finance function and has made appointments to strengthen the accounting team. A new Controller has been recruited to provide further support in financial reporting matters. A training program has been implemented on current and new developments in regulatory and accounting issues in Canada and the United Kingdom.

The CEO and CFO expect that with these enhancements the Company's ICFR controls and procedures will be sufficiently effective to ensure material information will be accumulated and communicated to senior management in sufficient time for senior management to make decisions regarding the Company's disclosure record as required by securities legislation.

Cautionary Note Regarding Forward-looking Information

This MD&A contains or refers to forward-looking information. All information, other than information regarding historical fact, that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Such forward-looking information includes, without limitation, information regarding the Company's expected or planned targets with respect to its operations and projects, estimates and/or anticipated levels of future gold and/or copper production, the Company's expectations with respect to the effect of commodity prices on future cost estimates, estimates of mineral resources and reserves, estimated operating costs, the estimated mine life of Varvarinskoye, the ability of Management to enhance production levels, Management's beliefs with respect to the ability of Varvarinskoye to provide a strong foundation for the Company's further growth, potential mineralization, exploration results and the Company's future exploration plans, the Company's ability to raise sufficient working capital to complete construction of the facilities necessary to place the Varvarinskoye Project into commercial production, the total cost estimate for completion of the Varvarinskoye process plant and related infrastructure, recovery of the amounts advanced to MDM under the LSTK and any associated interest and costs, the Company's successful defense against the claims of the liquidator of MDM that the Cession of sub-contracts under the LSTK gave rise to the Company receiving a benefit in preference to other creditors, the Company's expectation of recovering its net investment in oil and gas residual interests, the Company's achievement of full commercial production at the Varvarinskoye Project and the anticipated revenue therefrom, development and operational plans and objectives (including delineating additional mineral resources and the Company's expectations concerning enhancements to ICFR controls and procedures.

The forward-looking information in this MD&A reflects the current expectations, assumptions or beliefs of the Company based on information currently available to the Company. With respect to forward looking information contained in this MD&A, the Company has made assumptions regarding, among other things, the Company's ability to generate sufficient cash flow from operations and capital markets to meet its future obligations, the regulatory framework in Kazakhstan, with respect to, among other things, permits, licenses, authorizations, royalties, taxes and environmental matters, the ability of management to establish a commercial mining operation at Varvarinskoye, and the Company's ability to continue to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand.

Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company.

Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; capital and operating costs varying significantly from estimates; inflation; changes in exchange rates; fluctuations in commodity prices; delays in the development of, and the commencement of operations at, the Varvarinskoye Project caused by unavailability of equipment, labour or supplies, climatic conditions, delays in the delivery and installation of plant and equipment or otherwise; termination or suspension of the Company's debt facility; uncertainty of the outcome of any litigation; inability to delineate additional mineral resources or reserves; and other factors including, but not limited to, those listed under "Risk Factors".

Management's Discussion and Analysis of Operating Results **continued**

Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

The mineral resource and mineral reserve figures referred to in this MD&A are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource and reserve estimates referred to in this MD&A are well established, by their nature resource and reserve estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration.

Additional information about the risks and uncertainties of the Company's business is provided in its disclosure materials, including its Annual Information Form, available under the Company's profile on SEDAR at www.sedar.com.

NON-GAAP Measures

"EBITDA" is a non-GAAP measure of performance that describes earnings before interest, taxes, depletion and depreciation, non-cash foreign exchange loss or gain, stock compensation charges, fair value losses or gains on forward obligations and non-cash foreign exchange movements.

"Operating cash cost" is a non-GAAP measure calculated in accordance with the Gold Institute Production Cost Standard and includes site costs for all mining (excluding deferred stripping costs), processing and administration, royalties and production taxes, but exclusive of depletion, depreciation, reclamation, financing costs, capital costs, and exploration costs. Operating cash cost is presented as we believe it represents an industry standard of comparison.

"Operating cash cost per ounce" is a non-GAAP measure derived from the operating cash cost of ounces produced as a measure of total ounces produced.

"Sales price per ounce" is a non-GAAP measure derived by dividing the total cash amounts received on gold sales by the number of ounces sold in the period.

EBITDA, operating cash cost per ounce and sales price per ounce are not terms defined under Canadian generally accepted accounting principles, nor do they have a standard, agreed upon meaning. As such, EBITDA, operating cash cost per ounce and sales price per ounce may not be directly comparable to EBITDA, operating cash cost per ounce and sales price per ounce reported by other similar issuers.

CAT 777D haul trucks in operation



CAT 777D being loaded



Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada and within the framework of the summary of significant accounting policies in these consolidated financial statements.

To meet its responsibility for reliable and accurate financial statements, management seeks to establish a system of internal control in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organisation providing for appropriate delegation of authority and segregation of responsibilities.

The Audit Committee of the Board of Directors meets periodically with management and the Company's independent auditors to review the scope and results of their annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited on behalf of the shareholders by the Company's independent auditors, PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. The auditors' report outlines the scope of their audit and their opinion on the consolidated financial statements.

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



W. G. Kennedy
President and Chief Executive Officer



J. Cole
Chief Financial Officer

Vancouver, B.C. April 11, 2008

Auditors' Report

To the Shareholders of European Minerals Corporation

We have audited the consolidated balance sheets of European Minerals Corporation as at December 31, 2007 and 2006, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Pricewaterhousecoopers LLP

Chartered Accountants

Vancouver, B.C. April 11, 2008

Consolidated balance sheets

As at December 31, 2007 and 2006
(in thousands of US dollars)

	Notes	2007 \$	2006 \$
Assets			
Current assets			
Cash and cash equivalents		25,250	19,554
Inventories	5	18,738	-
Accounts receivable and prepaid expenses		1,032	474
		45,020	20,028
Restricted cash	4	127	16,249
Property, plant and equipment	7	220,476	139,137
Net investment in oil and gas residual interests	8	1,364	1,693
Advances held by contractor's bank	6	4,180	4,003
Deferred financing costs	3	-	13,145
		271,167	194,255
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		14,140	11,706
Current portion of long term debt	9	32,475	-
Current portion of derivative instruments	10(e)	19,185	-
		65,800	11,706
Long-term debt	9	17,645	13,847
Derivative instruments	10(e)	121,436	-
Future income taxes	11	6,705	2,272
Asset retirement obligations	12	11,388	3,052
		222,974	30,877
Shareholders' Equity			
Share capital	13(a)	204,553	174,985
Share purchase warrants	13(b)	46,629	46,346
Share purchase options	13(c)	13,567	9,599
Share purchase units	13(d)	-	2,376
Contributed surplus	14	1,399	796
Deficit		(217,955)	(70,724)
		48,193	163,378
		271,167	194,255
Nature of operations and going concern	1		
Management uncertainty	6		
Commitments	15		
Contingencies	16		
Subsequent events	1, 6 and 20		

 **Tony Williams**
Chairman

 **Bert Kennedy**
President and Chief Executive

Consolidated statements of operations, comprehensive loss and deficit

For the year ended December 31, 2007 and 2006
(in thousands of US dollars except shares and per share amounts)

	Notes	2007 \$	2006 \$
Income			
Interest		1,341	1,794
Expenses			
Unrealized loss on derivative instruments	3 and 10(e)	70,980	-
Investor relations		456	240
Administration		6,211	2,466
Legal and professional fees		643	665
Stock-based compensation		2,913	5,698
Foreign exchange gain		(720)	(440)
Write-off of property, plant and equipment	7	-	1,001
Project and development expenditure		668	1,091
Gain on disposal of development properties	20	(400)	-
		80,751	10,721
Net loss before income tax recovery		(79,410)	(8,927)
Income tax recovery	11	(1,820)	(328)
Net loss and comprehensive loss for the year		(77,590)	(8,599)
Basic and diluted loss per common share		(0.28)	(0.03)
Weighted average number of shares (000's)		281,732	259,837
Deficit – Beginning of year		(70,724)	(62,125)
Transitional adjustment	3(b) and 10(e)	(69,641)	-
Deficit – Adjusted Loss for the year		(140,365) (77,590)	(62,125) (8,599)
Deficit – End of year		(217,955)	(70,724)

Consolidated statements of cash flows

December 31, 2007 and 2006

(in thousands of US dollars except shares and per share amounts)

	Notes	2007 \$	2006 \$
Cash provided from (used for)			
Operating activities			
Net loss for the year		(77,590)	(8,599)
Adjustment to reconcile net loss to cash flow from operating activities			
Write-off of property, plant and equipment		-	1,001
Unrealized loss on derivative instruments		70,980	-
Unrealized foreign exchange		(177)	515
Stock-based compensation		2,913	5,698
Future income tax recovery		(1,820)	(328)
Shares provided for consulting services		-	78
Changes in non-cash working capital			
(Increase) in inventories		(18,738)	-
(Increase) decrease in accounts receivable and prepaid expenses		(476)	95
Increase (decrease) in accounts payable and accrued liabilities		4,916	(1,883)
Cash used in operating activities		(19,992)	(3,423)
Investing activities			
Expenditures on Varvarinskoye property, plant and equipment		(61,222)	(68,513)
Acquisition of minority interest in Varvarinskoye project	7	-	(2,250)
Restricted cash	4	16,122	8,186
Recovery of net investment in oil and gas residual interests		246	606
Cash used in investing activities		(44,854)	(61,971)
Financing activities			
Common shares issued, net of issue costs		21,275	64,624
Proceeds from exercise of stock options		672	135
Proceeds from exercise of warrants		1,036	36
Proceeds from exercise of units		4,045	3,313
Proceeds from long-term debt		46,367	13,847
Debt issue costs		(2,853)	(6,481)
Cash provided by financing activities		70,542	75,474
Increase in cash and cash equivalents		5,696	10,080
Cash and cash equivalents - Beginning of year		19,554	9,474
Cash and cash equivalents - End of year		25,250	19,554

Supplementary cash flow information

17

Notes to consolidated financial statements

December 31, 2007 and 2006

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

1 Nature of operations and going concern

European Minerals Corporation ("EMC" or the "Company") is a mineral exploration and development company focused on identifying, acquiring and developing resource projects. The Company's principal asset is the Varvarinskoye Gold-Copper deposit ("Varvarinskoye") located in the Republic of Kazakhstan. During the year ended December 31, 2007, the Company completed the construction of the mine and plant facilities at Varvarinskoye and, at December 31, 2007, the Company was in the process of commissioning the plant. The Company expects to reach commercial production in 2008.

At December 31, 2007, the Company had a working capital deficit of \$20.8 million, (2006 - positive working capital of \$8.3 million) and an accumulated deficit of \$218 million (2006 - \$70.7 million).

As at December 31, 2007, the Company had capital commitments for the Varvarinskoye Project amounting to \$6.8 million (note 15).

In December 2007, the Company raised a net additional \$21.2 million of equity from shareholders to enable it to provide funding during the commissioning process at the Varvarinskoye Project. During 2006, in order to provide funding for the completion of the capital expenditure on the Varvarinskoye Project, the Company finalized a project debt facility (note 9). As at December 31, 2007, a total of \$60.2 million had been drawn down under the facility, of which \$32.5 million is due within one year.

As a condition of the debt facility, the Company implemented a hedging facility by entering into monthly US dollar flat forward gold sales (the "Varvarinskoye Hedge") over a term of 8 years. The Company has sold forward 443,000 ounces of gold at a price of \$574.25 per ounce. The Varvarinskoye Hedge is unmargined with deliveries of gold into the hedge originally scheduled to commence in the first quarter of 2008. However, during the initial commissioning phase, the Company's gold production has been insufficient to meet its hedge commitments as they fall due and, subsequent to December 31, 2007, commitments maturing in the first three months of 2008 have been settled utilizing cash totalling approximately \$6.2 million. Further cash payments are expected to be required to settle future commitments as they fall due.

While these financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") applicable to going concern, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, the conditions and events above cast substantial doubt on the validity of that assumption. The ability of the Company to continue as a going concern is dependent upon achievement of commercial production at Varvarinskoye and the ability of the Company to raise additional capital and financing to fund the Company's commitments in the intervening period leading up to commercial production. The Company continues to have discussions with its lenders with the objective of deferring immediate hedge and loan repayment commitments and aligning these with the establishment of commercial production at Varvarinskoye.

These financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate; such adjustments could be material.

2 Summary of significant accounting policies

The consolidated financial statements have been prepared using Canadian GAAP and the following significant policies:

Basis of consolidation

The principal subsidiaries and investees of the Company as at December 31, 2007 are as follows:

- Three K Mining and Exploration Limited (registered in the British Virgin Islands) ("Three K")
- JSC Varvarinskoye (registered in the Republic of Kazakhstan) ("JSCV")
- European Minerals Corporation (UK) Limited (registered in England) ("EMUK")
- Kazminco Oil Limited (registered in the British Virgin Islands) ("Kazminco")
- Lisburne Holdings Limited (registered in the British Virgin Islands) ("Lisburne")
- Althames Exploration Limited (registered in the British Virgin Islands) ("AEL")
- Albex Minerals Sha (registered in Albania) ("Albex")

With the exception of Lisburne, the Company owns the entire issued share capital of the above entities. The Company controls 55% of the issued and outstanding share capital of Lisburne. All intercompany balances and transactions are eliminated on consolidation.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires the Company's management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Actual results may differ from those estimates.

Revenue recognition

Revenue from mineral sales is based on the value of minerals sold, net of value added tax, and is recognized at the time that mineral ore is delivered to the customer, title and risks of ownership have passed, collection is reasonably assured and the price is reasonably determinable. Refining and treatment charges are netted against revenue.

Foreign currencies

The Company's subsidiaries are integrated foreign operations. Revenues and expenses in foreign currencies are translated into United States dollars at the exchange rates on the dates of the transactions except for depreciation and amortization which are recorded at historic rates. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical rates. Differences arising on foreign currency translations are reflected in the consolidated statement of operations.

Cash and cash equivalents

Cash and cash equivalent balances include cash and short-term deposits with banks or other financial institutions that have an original maturity date of 90 days or less. Cash equivalents have been designated as available-for-sale and are reported on the balance sheet at fair value with changes in their fair value reported in other comprehensive income, net of income taxes.

Inventories

Product inventories are carried at the lower of cost or net realizable value. Costs that are incurred in or benefit the production process are accumulated as stockpiles, gold in process, and product inventories. Production costs include the costs of materials, costs of processing, direct labour mine and plant facility overheads, depreciation, depletion and amortization. Parts and consumables inventories are carried at the lower of cost or replacement cost.

Stockpiled ore is measured by estimating the number of tonnes added and removed from the stockpile, the number of contained metal ounces based on assay data, and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

Mineral property interests

Mineral property interests represent capitalized expenditures related to the acquisition, exploration and development of mining properties, related plant and equipment and related borrowing costs. Mine property, plant and equipment are recorded at cost. Repairs and maintenance expenditures are charged to operations; major improvements and replacements that extend the useful life of an asset are capitalized. Operating costs incurred prior to achieving commercial production, net of related revenues, are capitalized as mine development. Exploration and associated costs relating to properties for which there is no evidence of economically recoverable mineralization are expensed in the period incurred. Exploration costs relating to properties for which economically recoverable reserves are believed to exist are deferred until the project to which they relate is sold, abandoned, placed into production or becomes impaired.

From the commencement of commercial production, capitalized costs will be depreciated and depleted using a unit of production method based on recoverable amounts to be mined from proven and probable reserves. Buildings, plant and equipment are recorded at cost and are depreciated on a straight-line or diminishing balance basis over their useful estimated life as follows:

Buildings	straight-line basis over periods from 3-20 years
Plant and equipment	straight-line basis over periods from 3-20 years
Vehicles	straight-line basis over 5 years
Office equipment, furniture and fixtures	diminishing balance basis at annual rates of between 20% and 30%

Commercial production is deemed to have commenced on the first day of a calendar month following a 30-day period where: mining and milling activities are operating at 65% of design capacity for a sustained period; the process plant is able to sustain production of at least 65% of planned capacity; metals are produced in saleable form; and ongoing production of metals can be sustained and generate positive cash flows.

When a mine construction project moves into the commercial production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs related to mining asset additions or improvements, mine and pit development or reserve development, which are capitalized.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

Expenditures incurred for stripping activity considered to be a betterment of mineral property are capitalized and amortized over the mineral reserves that directly benefit from the specific stripping activity.

Interest expense and financing costs allocable to the qualifying cost of developing mining properties and to constructing new facilities are capitalized until the assets are ready for their intended use.

The Company reviews and evaluates its mineral property interests for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is considered to exist if the total future undiscounted cash flows are less than the carrying amount of the assets. Estimated future undiscounted cash flows are prepared using estimated future production, commodity prices, operating and capital costs and reclamation and closure costs. If the future undiscounted cash flows are less than the carrying value of the assets, the assets will be written down to fair value and the write-off charged to earnings.

Net investment in oil and gas residual interests

Sales proceeds and royalties received are recorded as a reduction to the carrying value of the Company's net investment in oil and gas residual interests.

Asset retirement obligations

The Company recognizes the estimated fair value of liabilities for asset retirement obligations, which include reclamation and closure costs, in the period they are incurred. A corresponding addition to the carrying value of the related asset is recorded and depreciated over the life of the related asset. The amount of the liability is subject to re-measurement in each reporting period for changes in the estimated timing or amount of expenditures and is accreted over time to the estimated retirement obligation ultimately payable through charges to operations.

The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, the extent of environmental remediation required, changes in technology and the means and cost of reclamation.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

Derivative instruments

All derivative financial instruments are classified as held for trading and are measured at fair value. The fair value of these derivative instruments is adjusted at each balance sheet date with changes in fair value recorded in the determination of net income. Fair value estimates for derivative contracts are based on quoted market prices for comparable contracts and represent the amount the Company would have received from, or paid to, a counterparty to unwind the contract at the market rates in effect at the balance sheet date.

Incentive stock option plan

The Company uses the fair value method for accounting for stock-based awards or grants to non-employees and employees, including those that are direct awards of stock or call for settlement in shares or cash or other assets. Under the fair value method, compensation expense attributed to the direct award of stock is measured at the fair value of the award at the grant date, using an option pricing model, and is recognized over the vesting period of the award. The Company charges the cost related to stock-based compensation to the statement of operations, or in the case of project-related personnel, the Company capitalizes the related amounts to mineral property. If and when the stock options are ultimately exercised, the applicable amounts of additional paid-in capital and contributed surplus are credited to share capital.

Loss per share

Loss per share is calculated based on the weighted average number of common shares issued and outstanding during the year. Diluted loss per common share is calculated using the treasury stock method for outstanding stock options and warrants. Under the treasury stock method, incremental common shares issuable upon the exercise of stock options and warrants are excluded from the computation if their effect is anti-dilutive. In periods in which a loss is incurred, the calculation would be anti-dilutive, in which case basic and diluted loss per share are the same.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

3 Adoption of new accounting standards and recent accounting pronouncements

Effective January 1, 2007, the Company adopted the revised Canadian Institute of Chartered Accountants ("CICA") Section 1506 "Accounting Changes" which requires that: (i) voluntary changes in accounting principles can be made if, and only if, the changes result in more reliable and relevant information, (ii) changes in accounting policies be accompanied by disclosures of prior period amounts and justification for the change, and (iii) for changes in estimates, the nature and amount of the change be disclosed. The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

Effective January 1, 2007, the Company adopted the three new accounting standards and related amendments to other standards on financial instruments issued by the CICA. Prior periods have not been restated.

(a) Financial Instruments – Recognition and Measurement, Section 3855

The standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based methods are used to measure the recorded amounts. It also specifies how financial instrument gains and losses are to be presented. Effective January 1, 2007, the Company's cash and cash equivalents and restricted cash have been classified as available-for-sale and are recorded at fair value on the balance sheet. Fair values are determined directly by reference to the published price quotations in an active market. Unrealized gains and losses on these instruments are reflected in other comprehensive income and included in accumulated other comprehensive income on the consolidated balance sheet.

All derivative financial instruments are recorded on the consolidated balance sheet at fair value. Mark to market adjustments on those instruments are included in net income. The adoption of CICA 3855 gave rise to a transitional adjustment of \$69.6 million as at January 1, 2007, arising from the mark to market of the Company's gold forward sales contracts, which was charged to opening deficit (see note 10(e)).

Accounts receivable and advances held by contractor's bank have been classified as loans and receivables and are recorded at cost or amortized cost, subject to impairment reviews. The criteria for assessing other-than-temporary impairment remain unchanged. Accounts payable and accrued liabilities and long-term debt have been classified as other financial liabilities and are recorded at amortized cost. Upon adoption, entities have the option to expense transaction costs or to continue to defer them. The Company elected to continue to defer financing costs and to recognize these over the expected life of the resulting instrument using the effective interest method of amortization. Transaction costs incurred to acquire financial instruments are included in the underlying balance. As a result of the adoption of Section 3855, unamortized deferred financing costs relating to long-term debt totalling \$13.1 million have been reclassified from assets and have been offset against the convertible and long-term loan balances in the consolidated balance sheet as at January 1, 2007 (see note 9). These costs are amortized over the period of the debt using the effective interest method.

(b) Hedges, Section 3865

CICA Handbook Section 3865 "Hedges" ("CICA 3865") establishes standards for when and how hedge accounting may be applied. Specifically, hedge accounting may be applied only when gains, losses, revenues and expenses on a hedging item would otherwise be recognized in net income in a different period than gains, losses, revenues and expenses are recognized on the hedged item. The Company adopted CICA 3865 with effect from January 1, 2007. None of the Company's derivative instruments, which comprised gold forward sales contracts at January 1, 2007, were designated as hedges under CICA 3865.

(c) Comprehensive Income, Section 1530

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available-for-sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized.

(d) Deferred stripping

Effective January 1, 2007, the Company adopted the CICA Emerging Issues Committee Abstract 160 ("EIC-160") "Stripping Costs Incurred in the Production Phase of a Mining Operation". EIC-160 requires stripping costs to be accounted for as variable production costs to be included in the

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

costs of inventory produced, unless the stripping activity can be shown to be a betterment of the mineral property, in which case the stripping costs will be capitalized. Betterment occurs when stripping activity increases future output of the mine by providing access to additional sources of reserves. Capitalized stripping costs will be amortized on a unit of production basis over the proven and probable reserves to which they relate. No transitional adjustments arose from the adoption of EIC-160.

(e) Convertible and other debt instruments with embedded derivatives

Effective March 5, 2007, the Company adopted the CICA Emerging Issues Committee Abstract 164 ("EIC-164") "Convertible and Other Debt Instruments with Embedded Derivatives". No transitional adjustments arose from the adoption of EIC-164.

Accounting Policy Developments

(i) The CICA plans to transition Canadian GAAP for public companies to International Financial Reporting Standards ("IFRS"). The effective changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

(ii) In February 2007, the CICA issued Section 1535 "Capital Disclosures" which is effective for fiscal years beginning on or after October 1, 2007. This standard requires disclosure of information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. The Company will adopt this standard commencing in the 2008 fiscal year, and it is not expected to have a significant effect on the Company's financial statements.

CICA Handbook Section 3064 "Goodwill and Intangible Assets" establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC-27, "Revenues and Expenses During the Pre-operating Period". As a result of the withdrawal of EIC-27, companies will no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations. The changes are effective for interim and financial statements beginning January 1, 2009.

(iii) In February 2007, the CICA issued Section 3862 "Financial Instruments – Disclosure" and Section 3863 "Financial Instruments – Presentation", which are effective for fiscal years beginning on or after October 1, 2007. The objective of Section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments for the Company's financial position and performance and the nature and extent of risks arising from financial instruments that the Company is exposed to during the reporting period and the balance sheet date and how the Company is managing those risks. The purpose of Section 3863 is to enhance the financial statement user's understanding of the significance of financial instruments to the Company's financial position, performance and cash flows. The Company will adopt these standards commencing in the 2008 fiscal year.

(iv) In May 2007, the CICA issued Section 3031 "Inventories", which supersedes Handbook Section 3030 to converge Canadian standards with IAS 2 "Inventories". This standard requires that inventories be measured at the lower of cost and net realizable value; the allocation of overhead based on normal capacity; the use of the specific cost method for inventories that are not normally interchangeable or goods and services produced for specific purposes; the use of a consistent cost formula for inventory of a similar nature and use; and the reversal of previous write-downs of inventory to net realizable value, when there is a subsequent increase in the value of inventories. Disclosure requirements will include the Company's policies, carrying amounts, amounts recognized as an expense, write-downs and subsequent reversal of write-downs. The Company will adopt this standard commencing in the 2008 fiscal year and is currently assessing the impact that this standard will have on the Company's financial statements.

4 Restricted cash

Restricted cash comprises \$0.1 million (2006 - \$16.2 million) of funds not available for general or other purposes. These funds were set aside as part of the covenants attached to the debt facility. At December 31, 2006, \$15 million of these funds were held to cover potential cost overruns in the completion of the Varvarinskoye Project and the balance of \$1.2 million held to cover certain future costs relating to the debt facility (note 9).

During the year ended December 31, 2007, \$15 million of the funds allocated to cost overruns was utilized to fund part of the capital additions in the year to the Varvarinskoye Project. \$1.1 million of other funds were spent on certain costs relating to the debt facility. On completion of the Varvarinskoye Project, any remaining funds will be utilized to meet future repayment commitments arising from the debt facility.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

5 Inventories	2007	2006
	\$	\$
Stockpiled ore	11,250	-
Parts and consumables	7,488	-
Total	18,738	-

6 Measurement uncertainty

During the year ended December 31, 2005, JSCV entered into a Lump Sum Turnkey Agreement ("LSTK") with MDM Ferroman (Pty) Limited ("MDM") for construction work to be undertaken at the Varvarinskoye Project. This LSTK was terminated effective January 31, 2006 and MDM is now subject to insolvency proceedings.

Funds advanced by the Company to MDM as payment for MDM sub-contractors totalling approximately ZAR 28.3 million were withheld by MDM's bankers. The Company acting on professional advice commenced legal proceedings to recover these amounts. On March 28, 2008, the Company was advised its legal case had been successful and MDM's bankers had been ordered to repay the entire amount plus interest and legal costs. No amount has been recorded in these financial statements for any interest and legal costs that the Company may ultimately recover under the ruling.

Since receiving notification that its legal case has been successful, the liquidator of MDM has revived a claim against the Company in relation to the termination of the LSTK in January 2006. Prior to being placed into provisional liquidation, MDM assigned all of its rights and obligations under its contracts with suppliers to JSCV under a cession agreement (the "Cession") for no consideration. The liquidator of MDM claims the Cession of sub-contracts under the LSTK gave rise to the Company receiving a benefit without consideration and/or in preference to other creditors and claims this could be set aside under South African insolvency law and has raised a claim against JSCV for ZAR 46 million (US\$6.6 million). Until the claim is settled, the funds recovered from MDM's bankers will be held by the Company's solicitors in an interest bearing bank account.

The Company acting upon legal advice is defending this claim and believes it will ultimately be successful. However, there can be no assurance that the Company will be successful in any legal actions it may take to defend this claim. As a result, the Company may suffer losses and these could be material.

Movements in the advances held by contractor during the year are as follows:	2007	2006
	\$	\$
Opening balance - January 1	4,003	4,518
Arising in the year	-	-
Effect of translation of foreign currency	177	(515)
Closing balance - December 31	4,180	4,003

7 Property, plant and equipment

The Company operates the Varvarinskoye Project through ownership of its subsidiary, JSCV. The Varvarinskoye Project is located in the north of Kazakhstan. JSCV holds two licenses to explore and develop the Varvarinskoye Project and also a Subsoil Use Contract ("SSUC") with the Government of Kazakhstan.

In the year ended December 31, 2005, the Company acquired the remaining 14% minority interest in JSCV that it did not already own, for a total cost of \$7.25 million. In line with the Purchase Agreement, a cash payment of \$5 million was paid on closing with the remaining balance of \$2.25 million paid on December 31, 2006. At December 31, 2005, the discounted value of the remaining purchase price of \$2.11 million was recorded as a liability. This liability was accreted up to its principal value during the year ended December 31, 2006.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

In the year ended December 31, 2005, the Company made supplier payments totalling \$1.0 million. These payments were made under the LSTK contract and included in the carrying value of Varvarinskoye property, plant and equipment at December 31, 2005. During the year ended December 31, 2006, the Company identified that during the transition from the LSTK to the Engineering, Procurement, Construction and Management Contract ("EPCM") managed by SENET cc ("SENET"), no ultimate benefit or betterment of the Varvarinskoye Project was derived from the costs incurred, and consequently these amounts were written off in fiscal year 2006.

The components of property, plant and equipment are as follows:

	2007	2006
	Cost and	Cost and
	net book value	net book value
	\$	\$
Mining property and development costs	38,765	32,256
Property, plant and equipment	192,126	26,794
Assets under construction	-	84,579
	230,891	143,629
Accumulated depreciation	(10,415)	(4,492)
	220,476	139,137

Included within mining property and development costs are capitalized stock compensation costs of \$1.9 million (2006 - \$1.8 million) which relate to employees of the Company directly involved with the Varvarinskoye Project. Interest totalling \$3.1 million (2006 - \$0.1 million) and amortized deferred finance costs of \$6.2 million (2006 - \$0.1 million) have also been included within mineral property and development costs.

8 Net investment in oil and gas residual interests

	2007	2006
	\$	\$
Opening balance - January 1	1,693	2,544
Sale proceeds	-	(605)
Royalty income	(329)	(246)
Closing balance - December 31	1,364	1,693

In 1999, the Company sold its interest in Tasbulat Oil Corporation ("Tasbulat"), a company producing oil in Kazakhstan. In accordance with the terms of the sale agreement, in January 2006 the Company received the final portion of the sales proceeds of \$0.6 million, which was deducted from the carrying value of the asset.

The remaining net investment is expected to be recovered from the Company's share of a 1% gross overriding royalty (based on gross sales proceeds less certain sales-related costs and taxes) which is payable to the Company from all oil produced from Tasbulat exceeding 2.0 million barrels of oil equivalent. The Company anticipates that its residual net investment in oil and gas interests will be fully recovered from future royalty income.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

9 Long-term debt

Long-term debt and the attributable unamortized deferred financing costs as at December 31, 2007 are as follows:

	ECIC Loan \$	Commercial Loan \$	Convertible Loan \$	Total \$
Balance drawn down at December 31, 2007	34,317	17,897	8,000	60,214
Unamortized deferred financing costs	(5,873)	(2,753)	(1,468)	(10,094)
Current portion	28,444 (20,650)	15,144 (11,825)	6,532 -	50,120 (32,475)
Included in long-term liabilities	7,794	3,319	6,532	17,645

Long-term debt at December 31, 2006 was as follows:

	ECIC Loan \$	Commercial Loan \$	Convertible Loan \$	Total \$
Total principal at inception	13,292	-	555	13,847
Unamortized deferred financing costs	-	-	-	-
Current portion	13,292 -	- -	555 -	13,847 -
Included in long-term liabilities	13,292	-	555	13,847

On November 30, 2005, JSCV entered into a limited recourse debt facility (the "debt facility") with Investec Bank (UK) Limited, Investec Bank Limited and Nedbank Limited (the "Lenders") to fund the debt portion of the construction of the Varvarinskoye Project for a total amount of \$75.4 million. The Company was unable to draw-down from this facility until the issues relating to the cancellation of the LSTK with MDM and subsequent completion of the EPCM with SENET were finalized.

These issues were resolved during the year ended December 31, 2006 and the debt facility amended and concluded on December 19, 2006. The facility is collateralized by the assets of JSCV. The covenants of the debt facility required the Company to deposit cash balances in restricted accounts and also to enter into gold forward contracts. Further details of these covenants are given in notes 4 and 10(e) respectively. The debt facility also requires the Company not to raise any new debt or make distributions that result in the Company exceeding certain specified financial ratios.

Upon finalization of the debt facility in 2006, the total facility available was reduced to \$61 million and consists of:

- a loan facility supported by the Export Credit Insurance Corporation of South Africa of \$35 million (the "ECIC Loan");
- a commercial loan of \$18 million (the "Commercial Loan"); and
- a convertible loan facility of \$8 million (the "Convertible Loan").

(a) The ECIC Loan is for a period of 42 months and is repayable in four semi-annual instalments commencing June 30, 2008. Interest is payable on this facility at LIBOR plus 1.25%. At December 31, 2007, the Company had drawn down \$34.3 million (2006 - \$13.3 million) from this facility.

(b) The Commercial Loan is for a period of 30 months and is repayable in three semi-annual instalments commencing June 30, 2008. Interest is payable on this facility at LIBOR plus 2.8%. At December 31, 2007, the Company had drawn down \$17.9 million (2006 - \$nil) from this facility.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

(c) The Convertible Loan has semi-annual repayments commencing June 30, 2009 until the final repayment date on June 30, 2010. The Convertible Loan does not incorporate any direct conversion option for either the issuer or the holder. However, in conjunction with the draw down of the debt facility, the Company issued 8,602,000 Share Purchase Warrants ("JSCV Warrants") to the JSCV Project Lenders (the "JSCV Lenders"). These warrants are exercisable at \$0.93 and expire on the earlier of the repayment of the Convertible Loan or October 2011. The principal amount of the Convertible Loan can be converted into common shares of the Company at the option of the Lenders, by the exercise of the JSCV Warrants, the resultant funds being utilized to repay the Convertible Loan. Interest is payable on this facility at LIBOR plus 2.8%. At December 31, 2007, the Company had drawn down \$8.0 million (2006 - \$0.6 million) from this facility.

During the year ended December 31, 2007, the Company incurred deferred financing charges of \$3.2 million (2006 - \$7.9 million) with regard to the debt facility. Included in deferred financing charges incurred during the year is an amount of \$nil related to the value attributable to JSCV Warrants issued to the JSCV Lenders (2006 - \$3.8 million issued to Lenders).

The Company's commitments to repay its long-term debt are disclosed in note 15 to these financial statements.

10 Financial instruments and hedging activities

(a) Fair values

The fair value of accounts receivable, advances held by contractors' bank and accounts payable and accrued liabilities approximates their carrying values due to their immediate or short-term maturity as at December 31, 2007.

The fair value of long-term debt approximates its book value due to the floating rate nature of the debt.

(b) Credit risk

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, restricted cash, and accounts receivable. The Company deposits cash and cash equivalents and restricted cash balances with high credit quality financial institutions. Future gold and copper production is committed to a small number of internationally recognized customers on market pricing terms. The Company performs credit evaluations of its customers on an ongoing basis.

(c) Interest rate risk

Monetary assets and liabilities are subject to the risk of movements in interest rates. At December 31, 2007, the Company had gross debt of \$60.2 million denominated in US dollars. These liabilities are held at terms linked to LIBOR interest rates.

At December 31, 2007, the Company held a total of \$25.3 million of unrestricted cash on deposit. \$25 million of this balance was held in the United Kingdom, \$0.1 million held in Canada and \$0.2 million in Kazakhstan. These deposits are held in the relevant local currency at floating interest rates. Interest rates are commercial rates, which are fixed by reference to LIBOR for Canadian dollar and sterling assets, or the applicable inter-bank interest rates for financial assets held in other currencies.

(d) Foreign exchange risk

EMC's costs are incurred primarily in United States dollars, British Pound Sterling, South African Rand and the Tenge (the currency of Kazakhstan). Changes in the currency exchange rates of the United States dollar against the British Pound Sterling, South African Rand or the Tenge (i) may affect the capital costs of the Varvarinskoye Project and (ii) will affect the results presented in the Company's financial statements by causing its earnings to fluctuate period over period. Also, as the Company reports its financial position in United States dollars, any cash or other monetary asset and liability balances that are held by the Company in other currencies are valued using exchange rates in effect at the balance sheet date. Differences between amounts carried in the foreign currency and the US dollar equivalent are expensed in the current period.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

(e) Derivative financial instruments	2007 \$	2006 \$
Derivative instruments	140,621	-
Less: Amounts due within one year	(19,185)	-
	121,436	-

All derivative financial instruments are classified as held for trading and are measured at fair value. At January 1, 2007 and December 31, 2007, the Company's derivative financial instruments were comprised solely of gold forward sales contracts.

As a condition of the debt facility, the Company implemented a hedging facility by entering into monthly US dollar flat forward gold sales (the "Varvarinskoye Hedge") over a term of 8 years. The Company has sold forward 443,000 ounces of gold at a price of \$574.25 per ounce.

The Varvarinskoye Hedge represents approximately 50% of the production during the term of the Hedging Facility, but only approximately 20% of the current estimates proven and probable reserves of gold.

None of the Company's derivative instruments have been designated as hedges. Accordingly, such instruments that do not qualify for hedge accounting are required to be recorded at fair value with changes in their fair value recognized as unrealized gains and losses in the financial statements in the period in which they occur.

The adoption of CICA 3855 and 3865 gave rise to a transitional adjustment of approximately \$69.6 million as at January 1, 2007 which was charged to opening deficit. The unrealized loss recorded in the consolidated statement of operations for the year ended December 31, 2007 was approximately \$71 million. Up to December 31, 2006, the Company had designated its gold forward sales contracts as executory contracts, and accordingly had not been required to mark such contracts to market prior to January 1, 2007.

11 Income taxes

(a) The income taxes shown in the consolidated statements of operations differ from the amount obtained by applying statutory rates due to the following:

	2007	2006
Statutory tax rate	30%	30%
	\$	\$
Net loss before income tax recovery	(79,410)	(8,927)
Recovery of income taxes based on statutory rates	(23,823)	(2,679)
Change in valuation allowance	43,440	2,351
Transitional adjustment	(20,892)	-
Other	(545)	-
Future income tax recovery	(1,820)	(328)

The statutory rates applied reflect the rates applicable in the UK and Kazakhstan. On April 8, 2005, the Company was continued from the Yukon Territory, Canada to the British Virgin Islands.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

(b) Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. On acquisition of resource assets, the Company records a future tax liability and corresponding adjustment to the related asset carrying amount. The significant components of the Company's future income tax assets and liabilities are as follows:

	2007 \$	2006 \$
Future income tax assets		
Derivative instruments	42,186	-
Operating and capital loss carryforwards	6,475	5,221
Asset retirement obligation	3,417	48
	52,078	5,269
Less: Valuation allowance	(48,661)	(5,221)
	3,417	48
Future income tax liabilities		
Property, plant and equipment	(10,122)	(2,320)
Net future income tax liability	(6,705)	(2,272)

(c) As at December 31, 2007, the Company has losses carried forward for income tax purposes of approximately \$16 million arising in the United Kingdom. These losses are without expiry. These tax losses may be applied to reduce future income tax liabilities. Loss carry-forwards in Canada expired in 2005.

12 Asset retirement obligations

A reconciliation of the changes in asset retirement obligations is as follows:

	2007 \$	2006 \$
Opening balance - January 1	3,052	470
Additions in the year	7,896	2,265
Accretion	440	317
Closing balance - December 31	11,388	3,052

The Company's estimates of future asset retirement obligations are based on reclamation standards that meet or exceed regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, decommissioning and reclamation alternatives and amounts to be recovered from other parties. Significant reclamation and closure cost activities include land rehabilitation and reforestation, demolition of buildings and mine facilities, fencing, ongoing care and maintenance and other costs. The provision for reclamation is based on the following key assumptions:

- total undiscounted cash flows of approximately \$31 million;
- the expected timing of payment of the cash flows ranges in the years 2006 to 2021; and
- a credit adjusted risk-free rate at which the estimated flows have been discounted by 8.2% after applying an assumed inflation rate of 8.3%

On commencement of commercial mining activities, this provision will be accreted over the life of the mine on a units-of-production basis, to the estimated retirement obligation payable through charges to operations.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

13 Share capital

(a) Authorized

The Company is authorized to issue 100,000,000,000 common shares of no par value.

Issued	2007	2007	2006	2006
	Number of shares (000s)	Amount \$	Number of shares (000s)	Amount \$
As at January 1	279,254	174,985	196,645	120,359
Common shares issued for cash	17,497	22,021	77,050	54,451
Exercise of warrants for cash	1,250	1,036	50	36
Exercise of stock options for cash	850	672	200	135
Exercise of Agent Units for cash	3,853	4,045	5,209	3,313
Transfer of fair value on exercise of stock options, warrants and Agent Units	-	2,382	-	1,614
Common shares issued for consulting services	100	159	100	78
Share issue costs	-	(747)	-	(5,001)
Balance - December 31	302,804	204,553	279,254	174,985

During the years ended December 31, 2007 and 2006, the Company made the following share, warrant and unit issues:

2007

On December 18, 2007, the Company completed a private placement for a total of 17,496,875 common shares of the Company at a price of C\$1.28 per share, for aggregate gross proceeds of \$22 million.

During the year ended December 31, 2007, a total of 850,000 common shares were issued upon the exercise of stock options, 1,250,000 upon the exercise of warrants and 3,853,000 upon the exercise of Agent Units, raising a total of approximately \$5.7 million in proceeds.

The Company also issued 100,000 common shares in payment of consulting fees totalling \$0.15 million.

2006

On March 21, 2006, the Company completed an offering (the "2006 Offering") that consisted of approximately 67 million units at Cdn\$1.05 (\$0.90) each, raising gross proceeds of approximately \$60 million. Pursuant to the exercise of the over-allotment option granted to the agents in connection with the 2006 Offering, on March 24, 2006, the Company issued an additional 10.05 million units at Cdn\$1.05 (\$0.90) each, raising further gross proceeds of approximately \$9 million. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share until March 21, 2011 at a price of Cdn\$1.55 per share. Gross proceeds from the sales of the units have been split between share capital and share purchase warrants. Cash issue costs totalled \$4.8 million and have been recorded as a reduction to the value of share capital and share purchase warrants. In addition the fair value of 3,853,000 Agent's Options totalling \$2.4 million has been treated as share issue costs and allocated as a reduction to the value of share capital and share purchase warrants.

During the year ended December 31, 2006, a total of 200,000 common shares were issued upon the exercise of stock options, 50,000 upon the exercise of warrants and 5,209,000 upon the exercise of Agent Units, raising a total of approximately \$3.48 million in proceeds.

The Company also issued 100,000 common shares in payment of consulting fees totalling \$0.1 million.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

(b) Share purchase warrants

A summary of the changes in the Company's share purchase warrants for the years ended December 31, 2007 and 2006 is set out below:

	2007	2007	2007	2006	2006	2006
	Value assigned \$	Warrants outstanding	Weighted average exercise price \$	Value assigned \$	Warrants outstanding	Weighted average exercise price \$
As at January 1	46,346	129,765	1.16	28,708	80,084	1.00
Issued for 2006 offering	-	-	-	14,934	38,525	1.31
Issued on exercise of Agent's Units	1,032	1,926	1.39	1,108	2,604	1.08
Issued to debt facility Lenders	-	-	-	3,766	8,602	0.93
Exercised	(749)	(1,250)	0.88	(25)	(50)	0.72
Issue costs	-	-	-	(2,145)	-	-
Balance - December 31	46,629	130,441	1.17	46,346	129,765	1.16

A summary of the share purchase warrants outstanding and exercisable as at December 31, 2007 and 2006 is set out below:

	2007	2007	2007	2006	2006	2006
	Exercise price	Expiry date	Number	Exercise price	Expiry date	Number
	0.99	April 11, 2010	71,888	0.99	April 11, 2010	71,888
	0.86	November 30, 2010	2,000	0.86	November 30, 2010	2,000
	1.39	March 21, 2011	40,451	1.39	March 21, 2011	38,525
	1.20	December 23, 2008	7,500	1.20	December 23, 2008	7,500
	0.93	October 17, 2011	8,602	0.77	September 30, 2009	1,250
				0.93	October 17, 2011	8,602
Total			130,441			129,765

During the year ended December 31, 2007, a total of 1,250,000 warrants were exercised for gross proceeds of approximately \$1 million. In addition 1,926,000 broker warrants were issued on the exercise of 3,853,000 share purchase units. These warrants have an exercise price of C\$1.55 and are exercisable until March 21, 2011.

A total of 38,525,000 warrants were issued in conjunction with the 2006 Offering. In addition, 2,604,000 warrants were issued upon the exercise of 5,209,000 share purchase units. These warrants have an exercise price of Cdn\$1.20 and are exercisable until April 11, 2010. A further 8,602,000 warrants were issued to the JSCV Project Lenders in connection with the debt facility. These warrants are exercisable at \$0.93 and expire on October 17, 2011.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

In accordance with Canadian generally accepted accounting principles, the fair value of the warrants granted has been calculated using the Black-Scholes option pricing model, using the following assumptions:

	Warrants issued to Warrants JSCV Project Lenders	
Risk free interest rate	4.0%	4.5%
Expected dividend yield	Nil	Nil
Expected stock price volatility	88.44%	71.5%
Expected warrant life	5 years	5 years

Pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of warrants granted by the Company.

(c) Share purchase options

The Company maintains an incentive stock option plan (the "Plan") covering directors, officers, employees and consultants of the Company and its subsidiary companies. The exercise price of an option is determined by the Board of Directors on the basis of the closing market price of the Company's shares on the trading day prior to the date of issue of the option. The Plan provides that options may be granted for a maximum period of ten years and the aggregate number of shares which may be issued and sold under the Plan may not exceed 10% of the issued and outstanding common shares from time to time less options exercised since shareholder approval was last granted in respect of the Plan. At December 31, 2007, a total of 30,280,000 options were reserved under the Plan with 6,015,400 options available for granting.

A summary of the Company's share purchase options for the years ended December 31, 2007 and 2006 is set out below:

	2007 Value assigned \$	2007 Number outstanding	2007 Weighted average exercise price \$	2006 Value assigned \$	2006 Number outstanding	2006 Weighted average exercise price \$
As at January 1	9,599	20,815	0.78	2,285	4,965	0.49
Issued	4,860	6,100	1.07	6,290	16,150	1.34
Extended	-	-	-	1,181	-	0.46
Exercised	(289)	(850)	0.77	(106)	(200)	0.68
Forfeited	(603)	(1,800)	0.86	(51)	(100)	0.64
Balance - December 31	13,567	24,265	0.84	9,599	20,815	0.78

A summary of the stock options outstanding and exercisable as at December 31, 2007 is set out below:

Range of prices \$	Number of options	Weighted average years to expiry	Weighted average exercise price \$	Number of exercisable options	Weighted average exercise price \$
0.37 - 0.49	2,925	1.59	0.42	2,925	0.42
0.50 - 0.99	15,890	1.51	0.83	15,790	0.83
1.00 - 1.49	5,375	4.14	1.09	4,500	1.09
1.50 - 1.56	75	0.05	1.56	75	1.56
	24,265	2.10	0.84	23,290	0.83

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

Stock-based compensation

The Company uses the fair value method of accounting for stock-based compensation. The fair value of stock-based compensation expense recorded in 2007 was \$4.8 million (2006 - \$6.3 million). In addition, the fair value of options whose lives were extended in the year ended December 31, 2007 totalled \$ nil (2006 - \$1.2 million). Of these, \$2.9 million (2006 - \$5.7 million) was related to non-Project personnel and was expensed in the statements of operations with the remaining amount of \$1.9 million (2006 - \$1.78 million) related to Project personnel and capitalised to Varvarinskoye property, plant and equipment.

The fair value of stock options used to calculate compensation expense is estimated using the Black Scholes option pricing model with the following assumptions:

	2007	2006
Risk free interest rate	3.9% – 4.5%	4.0% – 4.5%
Expected dividend yield	Nil	Nil
Expected stock price volatility	64% – 91%	71.5% – 88.4%
Expected option life in years	5	3

(d) Share purchase units

On March 21, 2006, the Company entered into an agency agreement with Canaccord Adams Ltd. (the "Agent"). Under the terms of the agency agreement, the Agent was granted 3,853,000 compensation options ("Agent Options").

Each Agent Option entitles the holder to purchase one unit (an "Agent Unit") for Cdn\$1.05 until September 21, 2007. Each Agent Unit consists of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant, an "Agent Unit Warrant"). Each Agent Unit Warrant entitles the holder thereof to acquire one common share until September 21, 2011, at a price of Cdn\$1.55. The Agent Options were valued at \$2.4 million using the Black-Scholes pricing model and have been applied as share and warrant issue costs. As at December 31, 2007, all of the Agent Options had been exercised.

On April 11, 2005, and April 26, 2005, the Company entered into agency agreements with each of Canaccord Capital (Europe) Limited, Haywood Securities Inc. and Pacific International Securities Inc. (collective, the "Agents"). Under the terms of the agency agreements, the Agents were granted 6,900,000 compensation options ("Agent Options").

Each Agent Option entitles the holder to purchase one unit (an "Agent Unit") for Cdn\$0.75 or £0.33 until October 11, 2006. Each Agent Unit consists of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant, an "Agent Unit Warrant"). Each Agent Unit Warrant entitles the holder thereof to acquire one common share until October 11, 2010, at a price of Cdn\$1.20. The Agent Options were valued at \$3.4 million using the Black-Scholes pricing model and have been applied as share and warrant issue costs.

Significant assumptions used in the Black-Scholes model in determining the unit values are as follows:

	2006
Risk free interest rate	4.0%
Expected dividend yield	Nil
Expected stock price volatility	88.4%
Expected option life	1.5 years

Pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of units granted by the Company.

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

A summary of the changes in the Company's share purchase units for the years ended December 31, 2007 and 2006 is set out below:

	2007	2007	2007	2006	2006	2006
	Value	Units	Weighted	Value	Warrants	Weighted
	assigned	outstanding	average	assigned	outstanding	average
	\$		exercise price	\$		exercise price
			\$			\$
As at January 1	2,376	3,853	0.94	3,141	6,332	0.64
Granted	-	-	-	2,384	3,853	0.94
Exercised		(3,853)	0.94	-	-	-
Value transfer to share capital	(1,344)	-	-	(1,483)	(5,209)	0.67
Value transfer to warrants	(1,032)	-	-	(1,108)	-	-
Expired	-	-	-	(558)	(1,123)	-
Balance - December 31	-	-	-	2,376	3,853	0.94

14 Contributed surplus

A summary of the changes in the Company's contributed surplus for the years ended December 31, 2007 and 2006 is set out below:

	2007	2006
	\$	\$
As at January 1	796	186
Transfer of fair value of forfeited incentive stock options	603	52
Transfer of fair value of expired Agent Units	-	558
As at December 31	1,399	796

15 Commitments

The following table summarizes the capital and other long-term commitments of the Company as at December 31, 2007:

	Total	2008	2009	210
	\$	\$	\$	\$
Long-term debt	60,214	32,475	23,914	3,825
Capital commitments	6,750	6,750	-	-
	66,964	39,225	23,914	3,825

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

16 Contingencies

(a) Under the terms of the SSUC, the Company has agreed to repay certain historic costs totalling \$2.1 million (2006 - \$2.1 million) that the Republic of Kazakhstan incurred for a geological survey of the license area. These costs are repayable in annual instalments, as defined in the SSUC, after both of the following events have taken place:

- (i) the first discovery of a reserve in the license area - complete as at December 31, 2007; and
- (ii) the completion of the first year (not earlier than the year in which the discovery of a reserve occurs) during which the licensee has a net profit for tax purposes. As the Company has yet to complete a year in which a net profit for tax purposes is recorded, no liability has been recorded at December 31, 2007.

If and when the liability crystallizes, payments under the terms of the SSUC will be charged to operations as incurred.

(b) In January 2006, the Company terminated the LSTK with MDM in relation to the Varvarinskoye Project. At the time of the cancellation of the LSTK, various suppliers (the "Suppliers") were in various stages of providing the components that they had agreed to supply to MDM. Amounts remained owing by MDM to certain Suppliers who had completed their obligations and to certain other Suppliers with obligations outstanding who indicated that they would not do any further work without receiving satisfactory assurances that they would receive the balance of amounts owing to them.

In November 2005, prior to being placed into provisional liquidation, MDM assigned all of its rights and obligations under its contracts with the Suppliers to JSCV under a cession agreement (the "Cession"). Virtually all suppliers advised JSCV that they agreed to be bound by the Cession and dealt directly with JSCV thereafter. There is a risk that the liquidator appointed to oversee the affairs of MDM could apply to a court to set aside the Cession and/or pursue claims against JSCV. This could result in a loss to the Company and such loss may be material.

(c) The Company operates in a foreign tax jurisdiction and under a tax regime which may be subject to change and uncertainty. Tax amounts recorded are based on the Company's best estimate of known tax exposures, but may be subject to change.

17 Supplementary cash flow information

	2007 \$	2006 \$
Non-cash investing and financing activities		
Shares issued for consulting services	159	78
Financing costs capitalised	9,400	535
Interest paid	3,067	-
At December 31, 2007 and 2006, cash and cash equivalents comprised the following:	2007 \$	2006 \$
Cash	11,208	19,554
Short-term deposits	14,042	-
	25,250	19,554

Notes to consolidated financial statements continued

(tabular amounts in thousands of U.S. dollars except shares and per share amounts)

18 Related party transactions

During the years ended December 31, 2007 and 2006, the Company entered into the following transactions involving related parties, all of which have been recorded at the exchange amount:

Dragon Management International Services Limited ("DIS") charged the Company a total of \$603,000 (2006 - \$394,000) in respect of the provision of office facilities, general office overheads and re-charged costs incurred on behalf of the Company. A. J. Williams, Chairman and a director of the Company, beneficially owns DIS.

Endeavour Financial Corp ("EFC") charged the Company a total of \$144,000 (2006 - \$820,000) in respect of the provision of consulting services and related expenses. The amount charged by EFC for fiscal year 2006 includes a success fee of \$700,000 payable on completion of the debt facility and subsequent initial draw-down. A.J. Williams, Chairman and a director of the Company, is a director and shareholder of EFC.

Mining Assets Corp ("MAC") charged the Company a total of \$67,000 (2006 - \$75,000) in respect of the provision of the consulting services and related expenses of B. D. Rayment. MAC provides services to the Company on an ad-hoc basis. B. D. Rayment, a director of the Company, beneficially owns MAC.

As at December 31, 2007, a total of \$151,000 (2006 - \$820,000) was due to related parties and is included in accounts payable.

19 Segmented reporting

Management considers the Company has one operating segment being the exploration and development of natural resource properties. Short term deposit interest which is the Company's main source of income is generated from cash balances held in the United Kingdom.

Segmented information for the years ended December 31, 2007 and 2006 is as follows:

	2007 \$	2006 \$
Total assets by activity		
Mining	243,394	153,975
Corporate	27,773	40,280
	271,167	194,255
Total assets by geographical area		
Republic of Kazakhstan	243,394	153,975
United Kingdom	27,773	40,280
	271,167	194,255

20 Gain on disposal of development properties

During the year, management concluded that the Company's exploration concessions in Albania were not core to future strategy. As a result, the Company accepted an offer from a third party and disposed of this interest. The total proceeds for the sale were \$0.4 million to be paid over an agreed timescale. At December 31, 2007, \$0.3 million remained outstanding, 50% of which was received subsequent to year-end in line with the sale agreement.

Company information

Directors and Management

Anthony J Williams, Chairman and Director
William G Kennedy, President, Chief Executive Officer and Director
Dr Barry D Rayment, Director
J Merfyn Roberts, Director
Timothy J Hanford, Director
Graham A Potts, Vice President Administration and Corporate Secretary
James Cole, Chief Financial Officer

Principal Office

22 Grosvenor Square
London W1K 6LF
England
Telephone: +44 (0) 20 7529 7508
Facsimile: +44 (0) 20 7491 2244

Registered Office

Craigmuir Chambers
P.O. Box 71
Road Town, Tortola
British Virgin Islands

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
250 Howe Street, Suite 700
Vancouver, British Columbia V6C 3S7
Canada

Transfer Agent and Registrar

Computershare Trust Company of Canada
100 University Avenue
Toronto Ontario M5J 2Y1
Canada

Stock Exchanges

Toronto Stock Exchange: EPM (stock is quoted in Canadian Dollars)
Alternative Investment Market of the London Stock Exchange: EUM (stock is quoted in Pounds Sterling)

Website

www.europeanminerals.com

Email

enquiries@europeanminerals.com

Corporate Contacts

22 Grosvenor Square
London W1K 6LF
England

Telephone +44 (0)20 7529 7508

Facsimile +44 (0)20 7491 2244

Investors Contacts

Vanguard Shareholder Solutions Inc.
1205 - 1095 W. Pender Street,
Vancouver B.C. V6E 2M6
Canada

Telephone 1-604-608-0824

Toll Free 1-866-801-0779

www.vanguardsolutions.ca

E-mail

info@europeanminerals.com

Website

www.europeanminerals.com