Growth Stocks Weekly

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Performance: Year ended April 1996 **116.9%**; 1997 **28.1%**; 1998 **36.4%**; 1999 **39.4%**; 2000 **180.9%**; 2001 **-50.5%**; 2002 **18.7%**; 2003 **28.8%**; 2004 **166.7%**; 2005 **28.2%**

Junior Gold and Natural Resource Sector Report

February 26, 2006

Overlooked Emerging Producer

UPDATE*

EUROPEAN MINERALS CORPORATION (EPM-TSX, EUM-London AIM)

Daily chart, High $1.44, Low $0.53, Last Trade $1.12

***See our Initial Report published September 10, 2004:** GSW Junior Sector Report-European Minerals*

European Minerals Corporation (EPM) is currently our top choice in the category of near producers. Its Varvarinskoye gold-copper project in Northern Kazakhstan has proven and probable mineral reserves containing **2.345 million ounces** of gold and **269 million pounds** of copper at a price of US$375 gold and US$1.00 copper. This is within a larger resource of almost 4 million ounces of gold and 431 million ounces of copper. There is excellent additional exploration potential.

Shares Issued:	197 million
Fully Diluted:	288 million
Working Capital	$29 million (at Feb 20, 2006)

EPM has just received an independent review of the Varvarinskoye project from SENET regarding the design, cost of construction and target completion date for the Varvarinskoye process plant and associated infrastructure (all in millions of US$):

Process plant and infrastructure costs	60.81
EPCM costs payable to SENET:	
Fixed fees and overheads	3.72
Project management and related costs	5.07
Additional costs to EPM	6.00
Total	75.60

Contract notice to SENET to commence EPCM:	February 2006
Practical completion and introduction of first ore:	March 2007
Anticipated date of first gold pour:	April 2007
Completed commissioning and handover:	June 2007

Initial throughput: 4.2 million tonnes of ore per annum

Overall project capital costs have increased to approximately US$145 million (compared with the previously announced US$125 million) – up 16% from preliminary estimates. The Company has already disbursed some US$50 million of this total from its treasury. This leaves approximately US$95 million as the revised estimated capital cost to completion. Considering that the underlying commodities are up over 40% (gold) and 100% (copper) from the base case parameters, a 16% rise in the capital cost is not a problem.

EPM is reviewing its options to fund completion of the Varvarinskoye project, the result of general contractor MDM Ferroman's financial woes (see the January 16, 2006 news release). *W*e still expect a non-dilutionary debt-financing facility will be put in place, albeit would have to be a larger one. With the US$20 million increase in capital costs more than offset by the expected rise in revenues from the sale of their gold and copper, an equity issue is unlikely to be necessary. However, it is possible a small financing could still be in the cards to cover any shortfall, and would represent an opportunity to increase our exposure with some potential leverage.

As we highlighted last month, EPM put MDM Ferroman on notice in that they are in default of certain provisions of their contract. MDM was having well publicized problems at their other operations, not at Varvarinskoye. The mine site has already been prepared, the mine is being built and made ready for installation this spring/summer. But to be prudent, management gave notice to MDM that they must post a security bond or be terminated.

Management has gone out of their way to assure the market that they can build the rest of Varvarinskoye themselves, or get another bank-approved general contractor in to finish the job, with no delay or a minor delay at best. Once spring gets underway in Kazakhstan construction will recommence in earnest.

Last December EPM implemented a gold hedging facility in the form of a monthly US dollar flat forward gold sale for an 8-year term. EPM sold 443,000 ounces of gold and locked in a guaranteed price of US$574.25 per ounce for the whole period – an excellent price. The 443,000 ounces hedged represents 50% of the gold production during the term of the debt facility but only 19% of Varvarinskoye's current proven and probable mineral reserves of 2.34 million ounces of gold (this estimate of gold reserves was calculated at a gold price of US$375 per ounce).

The gold hedging facility is un-margined and deliveries of gold into the hedge are expected to commence from the first gold pour. Should they pay off the banks early however, the hedge ends when the loan ends. This could occur in as little as two years given an IRR of over 50% at current metals prices, leaving a debt-free cash-cow company. Pre-tax gross revenues could reach as much as US$80 million per year during its initial years, before expansion.

The Company's public documentation is available on www.sedar.com

Financial Highlights:

All equity case, before taxes and royalties	**Project Base Case: US$375/oz gold, US$1/lb Copper**	**US$400/oz gold, US$1.10/lb Copper**
NPV (0% discount)	US$301 million	US$371 million
NPV (10% discount)	US$114 million	US$147 million
IRR	35%	41%
Payback	26 months	22 months

The above table will need to be adjusted somewhat for recent capital cost changes, but given the copper and gold price pictures and their likely durability, payback and the likelihood of further expansion way past the base case scenario becomes feasible. A higher rate of mining, a deepening of the central pit, mining nearby satellite pits, and even underground operations would all be contemplated in such an environment.

According to EPM's Executive Chairman Tony Williams, expansion would be a two-stage undertaking. Stage one, already planned, would see throughput increase to 5.5 million tonnes by the end of the mine's second year, at a cost of around US$10 million. This would result in an additional 45,000 ounces of gold production to 190,000 ounces per year. The planning for stage two will begin as soon as Varvarinskoye is in production. Stage two essentially replicates the first plant, enabling a throughput between the two plants of 8 to 10 million tonnes, representing gold production of maybe 350,000 ounces per year and a similar increase in copper production, sustainable for perhaps 12 to 15 years or more.

It is note-worthy that project risk has been significantly reduced by weighting copper production to the early years and ensuring an estimated US$87 per gold ounce average cash cost during the first 6 years (US$158 over the life of the mine) under the base case. There is an offtake agreement that will see copper concentrate production sold at an LME linked price to Kazakhstan's biggest copper player for life-of-mine, reducing the marketing risk on the copper side of the operation.

Comments
Given the current gold and copper markets and our own expectations for a lengthy continuation of this secular bull market, investors should see significant share price moves to come.

On February 1, 2006, securities broker-dealer Canaccord Adams released their own review of EPM and increased their target price from $1.30 to $1.75, equivalent to a 1.25 times multiple of their base-case NAV assuming a 12% discount.

A total of 8,000 meters of diamond drilling was completed during the season ended November 2005. Of this, approximately 3,300 meters were exploration. Scout drilling was also undertaken on their vast land holdings surrounding the Varvarinskoye deposit. Results will be reported in due course.

I suspect that there will be a valuation bump when EPM (1) can point to greatly improved economics and size with the release of an updated optimization study for Varvarinskoye expected in April, (2) upon arranging the debt facility, and again (3) as we approach the start of production.

Technicals
A new uptrend commenced late May 2005, clearing major resistance at various Fibonacci Retracement lines and later in August the key 13, 40 and 80-day EMA's then between $0.60 and $0.65. This area is now supportive to price (old resistance becomes new support once breached), having been tested and held. The next resistance at about $0.73 has also been decisively broken and is now support. After four months of basing at a new trading range between $0.60 and $0.88, a renewed uptrend commenced in early December, marking the beginning of a move that we expected to challenge the old highs of early 2004. Price started strongly trending in November and continues to step up with periodic and relatively severe corrections. The 80-day EMA now at $1.00 is a key support indicator offering a low-risk buy-point in corrections. Fibonacci Retracement support is also found at the $1.02 area, further highlighting this area as a compelling buy point. All the EMA's are now rising and act to support the rising price, but the OBV, Stochastics, MACD and RSI all suggest that the current correction may not yet have run its course. A cautious approach to adding to or acquiring new positions is therefore warranted, and may yet be satisfied through a small equity financing (which may not be made available to retail investors however).

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