

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%**

Junior Gold and Natural Resource Sector Report

September 10, 2004

Overlooked Emerging Producer

EUROPEAN MINERALS CORPORATION (EPM.U-TSX)



Weekly chart, High US\$2.25, Low US\$0.05, Last Trade US\$0.58

Technicals

European Minerals' (EMC's) recent lows at the US\$0.40 area formed a "V"-bottom on the weekly chart (above), typically indicative of a change of trend climax following a steep downward move. The downtrend commenced late March 2004 after a double top at the US\$1.10-1.12 area. The higher high and now higher-low "V"-bottom suggests a continuation of the long-term bull market. Some consolidation at the US\$0.55-0.65 support area would set up for an attempt to breach US\$0.83, and the US\$1.10 thereafter. MACD has turned up from deeply oversold territory for the first time since January 2004.

From April 2002 to December 2003 the trading range was bounded by a US\$0.32-0.37 Fibonacci support zone (also a key number back in 1999 and 2000) and a US\$0.83 Fibonacci overhead resistance area, finally penetrated to the upside in December 2003 with a run to US\$1.10. Several probes of new support (old US\$0.83 resistance), held strong keeping the

bears' counter-offensive at bay at this level. The new bull offensive in late March 2004 did manage to print a marginally higher multi-year high at US\$1.12, forming a double top – offensive exhaustion as the bears overwhelmed the bulls' efforts. Given the MACD's negative divergence (significantly lower high) to that bullish advance, it came as no surprise to market technicians, a clear warning of waning buying strength. Double tops and bottoms are often key inflection points offering excellent trading opportunities.

Highlights

- Varvarinskoye is a production-ready gold/copper skarn deposit in Northern Kazakhstan
- EMC has 86% interest in the project
- Proven and probable reserves of 2.22 million ounces gold and 255 million pounds copper - awaiting updating from latest infill drill results announced August 30, 2004
- Independent feasibility study completed in 1998 by Bateman Engineering had already highlighted resources of 3.5 million ounces of gold and 240,000 tonnes of copper
- Earlier update proposed annual production 175,000 ounces gold, 20 million pounds copper with a cash cost of US\$158/oz (with copper credits at US\$0.80)
- Varvarinskoye pre-tax NPV at US\$350/oz gold was US\$238 million in February 2004 (US\$3.34/share FD)
- Mintec "Bankable" Definitive Feasibility Study (DFS) expected within next several weeks
- MDM Fixed Price Turn-key Lump Sum project construction contract expected October 2004
- Lack of news and a thin market with a determined heavy seller has created a severe price discount by all measurable valuation perspectives – with only a few weeks away from both a DFS and turnkey construction contract
- Significant exploration upside

Fundamentals

The company's lead project and our only focus for the purposes of this report is the Varvarinskoye copper / gold project in northern Kazakhstan, which has an audited reserve of 2.22 million oz gold and 272,000 tonnes of copper. The contained metal value of the reserve is (at US\$390 gold and 90¢ copper) US\$866 million for the gold and US\$540 million for the copper. The resource is estimated to contain 3.5 million oz of gold.

A diamond-drilling program commenced April 2004 (news release April 19th 2004). A total of 5,300m of diamond drilling has been undertaken to date. Infill diamond drilling on the periphery of the proposed open pits intersected additional mineralization (see news release August 30, 2004). The mineralization is near surface and has low copper contents that allow treatment through the carbon in leach circuit, the main process route at Varvarinskoye.

The results confirm the tenor of the Varvarinskoye ore bodies at these depths. An optimization of the mine block model is currently being finalized. Almost half of the diamond drilling undertaken (2,500m) was condemnation drilling to confirm the absence of mineralization at the proposed the Varvarinskoye mine facilities, process plant, waste dumps and tailings dam. These locations were finalized as part of the optimization of the Varvarinskoye Feasibility Study that is being completed by Metallurgical Design Management ("MDM") of Johannesburg.

MDM have completed the process and infrastructure sections of the Varvarinskoye bankable feasibility study. MDM have been re-appointed to undertake a detailed review of sourcing and costing equipment, materials and plant available in Kazakhstan. On completion of this exercise in October 2004, MDM have confirmed to EMC that they are willing to enter into a Fixed Price Turnkey Lump Sum Contract for the execution of the Varvarinskoye project. This step will significantly lower EMC's project risk and simplify the management of the Varvarinskoye project construction and development.

EMC's independent mining consultants, Mintec Inc of Tucson, Arizona ('Mintec'), continue to work on the optimization of the mining aspects of the bankable feasibility study, including updating reserves, open pit scheduling and phasing and revising mine operating costs. This work will be incorporated into the bankable feasibility study expected to be released in October 2004.

Mintec have previously estimated under National Instrument 43-101 (March 4th 2004 press release) that proven and probable reserves at Varvarinskoye are 2.2 million ounces of gold and 255 million pounds of copper.

Previous announcements have confirmed that the mine is being scoped at 4Mtpa, will produce an average of 175,000oz pa over 10 years exploiting a 2.2 million-oz reserve. Average cash costs are expected to be US\$158/oz (with copper credits at US\$0.80/lb), and capital estimated at US\$123 million.

Two diamond drill rigs remain on site and are drilling 3 geophysical targets on the 220 square kilometre exploration licence, which surrounds the 3 square kilometre mining licence. This drill program will continue, weather permitting, to mid October. Ongoing metallurgical developments, increased gold prices and pit optimization are being evaluated on an ongoing basis by Mintec (Tucson, Arizona).

At US\$400/oz gold and US\$1.00/lb copper the undiscounted pre-tax NPV (with no royalties) is US\$369 million, or US\$5.19/share based on 71.1 million shares outstanding fully diluted, which would raise an additional US\$12 million from

outstanding warrants and options.

Proven management team

European Minerals Corporation is part of the Dragon Capital stable, and is being developed by the same team that successfully explored and completed a DFS on the Julietta Deposit in Far East Russia to the point where it was bought by Bema.

Management and their associates, including financial advisor Endeavour Capital, account for around one-third of the ownership, but no one group has beneficial ownership of over 10%. The management team is well known to both the European and North American mining equity markets.

A J (Tony) Williams – Chairman

Mr. Williams is the founder and Chairman of the Dragon Group, a privately owned group of companies with interests in international mining finance and project management. Prior to founding the Dragon Group in 1995, he spent nine years in investment banking where he co-founded and led the Natural Resource Group at Yorkton Securities. He was integral in establishing this group as the leading exploration and development financiers worldwide. He is also Chairman of European Diamonds, a London listed resource company exploring for diamonds in Finland, and a director of Endeavour Mining Capital Corporation, a publicly listed mining merchant banking and fund management company. He qualified as a mining geologist in 1972 from the Royal School of Mines London and is a member of several professional mining industry associations.

Bert Kennedy – CEO

Mr Kennedy has 30 years experience as an economic geologist in the mining industry. He has worked for major and junior companies in Africa, Asia and South America principally in gold, copper and lead/zinc exploration and mining project planning, budgeting and managing geological investigation programs and evaluating mineral deposits. From 1995-98, he was President and CEO of Arian Resources, a TSX listed junior exploration company that owned the one million plus ounce Julietta gold project in Magadan in the Arctic Russian Far East. Arian took the project from the discovery phase to completion of a bankable feasibility study and arranged project finance. In 1998, Arian merged with Bema Gold and Julietta is now producing 120,000 oz/year at a cash cost of around US\$100/oz. He has been CEO of EMC (formerly KazMinCo) since 1995, with nine JVs completing two feasibility studies on copper and gold projects and acquiring a 55% stake in a 100 million-barrel oil field ready for production. He holds a BSc Geology from London University and a MSc Geochemistry from Oxford University. He is a Chartered Engineer and a Fellow of the IMM.

Dr. Barry D. Rayment - Director

Dr. Rayment is a mining geologist with 30 years experience in base and precious metal exploration throughout Europe, Central America, South America, the United States and in countries of the Commonwealth of Independent States. He has a PhD in mining geology from the Royal School of Mines, London. Since 1993, he has been President of Mining Assets Corporation, a private consulting corporation. He also serves as a director of several other public exploration and mining companies. He became a director of European Minerals in 1995.

Howard Nicholson - Technical Manager

Howard Nicholson is a metallurgical engineer with 23 years experience in the gold processing and base metal arenas, possessing a very strong matrix of operational management, project development / management and evaluation skills. Specialist expertise in the treatment of refractory gold ore types, particularly the use of bacterial oxidation processes, during 10 years with Ashanti Goldfields in Ghana. Responsible for operation of all Ashanti processing plants which included the construction of the largest bio-oxidation circuit in the world. He has several internationally published papers on the subject of practical Bio-oxidation plant design and operation.

Sally Schofield – Vice President

Worked as a resource evaluation geologist with the Dragon Group from 1995-98, concentrating predominantly on deposits in Kazakhstan and the Russian Far East. She then moved into commercial management for a major global construction materials firm gaining five years experience in financial, project and performance management. Sally holds a B. Eng. (hons) from Camborne School of Mines (University of Exeter).

Dr Jeno Csongradi - Exploration Manager

Dr Csongradi is a Hungarian national with a BSc and PhD in geology gained in Budapest. During the first part of his career, prior to the break up of the Soviet Union he worked for the Hungarian geological institute undertaking numerous economic geology reviews in areas as disparate as Mongolia, Cuba and Finland as well as working on the Carpathian geological system both in Hungary and neighbouring countries. He is fluent in English, Russian & Spanish. During the 1990s he was Placer Dome's Exploration Director in Europe and also undertook special projects for Placer in Kazakhstan and west and South Africa.

Graham Potts, FCIS - Secretary and Chief Financial Officer

Graham Potts is a Chartered Secretary with over 25 years corporate experience, gained with private, public and multinational companies, much of which relates to the international mining sector. Since 1995, Mr Potts has been engaged by the Dragon Group providing business management services to the Group as well as to associated companies, which have operations in

Europe and the Former Soviet Union. He holds the positions of Corporate Secretary and CFO of a Toronto listed junior mining company and a London AIM listed exploration company.

History

The project was developed to a definitive feasibility level in August 1998, but was not taken further at that point due to the demise in the copper and gold prices. The recent resurgence in both commodities (with gold at US\$400/oz and copper at US\$1.25/lb) makes Varvarinskoye highly profitable, which the company's stock price has not yet reflected.

Varvarinskoye already had the benefit of being an audited reserve, complete with a definitive feasibility study that showed it to be economic in 1998 with a gold price of US\$325/oz and copper at 90¢/lb. Last year the company announced a reserve upgrade, with copper reserves growing by 3% and gold reserves by a massive 73%, made possible by the successful application of bioleach technology, and the assessment of a low copper area (with high grade gold) that was otherwise ignored in previous studies. As well, earlier estimates had to rely on optimizing the copper plan, with the significant gold revenues that it brings.

The company is now updating the definitive feasibility study based on the new reserve and technology. Initial results (prior to the reserve upgrade) showed that gold recovery can be increased to 92.5%, and that the mine would support operations with a 12 year life at 103,000oz gold per annum and 18.7Mlbs copper per annum, with cash costs over the life of the mine of US\$152/oz (with copper credited at 80¢/lb). At 95¢/lb the copper credit would reduce the gold cash cost by a further US\$27/oz, down to US\$125/oz.

The company then confirmed the bioleach test route recoveries, and this has resulted in the said increase in the stated reserves as cut-off grades decline and the new gold area identified. A new reserve statement, endorsed by Mintec of Tucson, Arizona, was released on November 21, 2003. Those reserves, along with recent drilling and infill results announced August 30, 2004, are being incorporated into a new definitive feasibility study, expected to be completed in October 2004, and will likely result in the consideration of a doubled scale of operation.

Capital Structure

| | | Exercise by | Exercise price US\$ | Exercise proceeds US\$ |
|---|-------------------|-------------|------------------------|---------------------------|
| Shares in issue | 57,902,122 | | | |
| Warrants | 7,500,000 | 23-Dec-08 | 1.20 | 9,000,000 |
| | 750,000 | 30-Jun-05 | 0.85 | 637,500 |
| | 8,250,000 | | | |
| Stock options | 400,000 | 15-May-05 | 0.37 | 148,000 |
| | 835,000 | 4-Sep-05 | 0.50 | 417,500 |
| | 75,000 | 10-Dec-04 | 0.70 | 52,500 |
| | 75,000 | 10-Dec-04 | 1.00 | 75,000 |
| | 75,000 | 10-Dec-04 | 1.20 | 90,000 |
| | 75,000 | 10-Dec-04 | 1.50 | 112,500 |
| | 330,000 | 22-Jan-06 | 0.76 | 250,800 |
| | 640,000 | 30-Sep-06 | 0.41 | 262,400 |
| | 2,250,000 | 15-Oct-06 | 0.425 | 956,250 |
| | 200,000 | 02-Mar-07 | 0.86 | 172,000 |
| | 4,955,000 | | | |
| Total proceeds on exercise of warrants/stock options | | | | 12,174,450 |
| Fully diluted shares | 71,107,122 | | | |

Market comments

The recent share price pull back from the US\$1.12 high to the US\$0.39 low sparked some speculation concerning what could be wrong to warrant the aggressive selling. One of the rumours circulating concerned the good standing of the licence. Direct questions posed by a Canaccord Europe investment analyst last month to both the Minister responsible for the licence, and the Governor of the region resulted in very positive responses not only saying that they wouldn't stand in the way of development, but promising full support. Further investigation suggests that a bit of a disagreement over strategic direction of the company may at least partially explain the weakness, with at least one large shareholder moving on to other projects over which more direct policy influence may be applied. The 1.7 million-share block trade on Friday September 10 at US\$0.55 may mark an end to the overhang, clearing the way for a return to a more reasonable valuation. We would assume the shares went to stronger hands having an expectation for significant upside. Over the next several weeks we expect positive news regarding resource upgrades, a "bankable" definitive feasibility study, and the offer of a fixed price turnkey contract.

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