

Growth Stocks Weekly

www.gsweekly.com

Publisher: Diversified Financial Solutions ~ **Since:** May, 1995 ~ **Editor:** Richard Reinhard ~ **E-Mail:** info@gsweekly.com

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%; 2006 153.3%

Junior Gold and Natural Resource Sector Report

October 29, 2006

Overlooked Emerging Producer

UPDATE

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



Weekly chart, High \$1.44, Low \$0.44, Last Trade \$0.87

HIGHLIGHTS:

- Construction now fully funded after \$81 million equity raise & recent US\$75 million debt facility
- October 2007 commissioning expected with \$50 million in working capital position
- Very low \$62 (US\$55) market cap per oz of gold using base-case scenario
- Production estimated at 145,000 oz/yr at US\$67 cost per oz over 1st 5 years
- Payback < 22 months at US\$400/oz gold, US\$1.10/lb copper
- Life of mine operating costs expected to be US\$237 per oz
- Share price severely discounts NPV – potential takeover target
- Life of mine 15+ years

Overview of the Varvarinskoye Project

The 100% owned Varvarinskoye project is a gold-copper deposit in the development phase. The project has current resources of 3.8 million oz with proven and probable reserves of 2.34 million ounces of gold and 269 million pounds of copper at metal prices of US\$375/ounce for gold and US\$1.00/pound for copper. The deposit has simple metallurgy, strong economics and potential for expansion, and is expected to treat 4.2 million tons of ore per annum with a waste to ore stripping ratio of 4.17:1 and has a current mine life of 15 years.

Varvarinskoye is in a rural area close to the industrial city of Kustanai which has a well established mining services sector. The area has excellent infrastructure including roads, railways and power close to the project. Water is readily accessible and the flat terrain and mining culture in existence are considered positive attributes. The climate is dry hot summers (average 20°C) and cold snowy winters (average -15°C) which has been taken into account in the plant design, construction schedule and operating plan, and allows operations 24/7 for 358 days per year.

Gold Hedging Facility

A gold hedging facility implemented in December 2005 remains in place. The company sold into the hedge a total of 443,000 ounces of gold at a price of US\$574.25 per ounce. The hedge is in the form of a monthly US dollar flat forward un-margined gold sale facility for the eight year term of the project debt facility. The 443,000 ounces hedged represents 50% of the gold production scheduled during the term of the debt, but less than 20% of the reserves at Varvarinskoye. The implementation of the gold hedging facility satisfied a condition of drawdown of the debt facility.

Kazakhstan

The Republic of Kazakhstan is a landlocked country in central Asia and the second largest (after Russia) of the former Soviet Republics. It is geographically diverse, comprising extensive grassland, semi desert and mountainous areas. It is bordered by Russia, China, Kyrgyzstan, Uzbekistan, Turkmenistan and the Caspian Sea. The population of 14 million is highly literate and well educated. The country has good infrastructure with a well developed national grid and network of all-year roads, railways and airports.

Kazakhstan is a stable democratic country and is considered a "model transition economy" in gaining its independence from Soviet centralized command economy to become a free market economy. The country is headed by Nursultan Nazarbayev who was re-elected in 2005 for a seven year term. Under Nazarbayev's presidency, Kazakhstan has made significant progress towards developing a free market economy. The country has a friendly foreign investment climate and is a member of the United Nations, the World Customs Organization the Organization for Security and Cooperation in Europe among others. Kazakhstan is also an observer at the World Trade Organization and an active participant in the North Atlantic Treaty Organization's (NATO) Partnership for Peace program.

Minerals Resources in Kazakhstan

Kazakhstan possesses significant mineral and metal deposits, along with fossil fuel reserves; its industrial sector is based on the extraction and processing of these natural resources. Since gaining its independence in 1991 after the break up of the Soviet Union, Kazakhstan has experienced rapid economic growth, mostly attributed to its natural resources. According to the EBRD, Kazakhstan's GDP grew by 9.5% in 2004 and was projected to grow by 7.0% in 2005. The economic expansion is due to increased production of oil, minerals and other commodities, supported by high oil prices and rising foreign investments.

Mineral resources include the world's largest chromium, vanadium, bismuth and fluorine reserves. The country is also a major producer of iron, coal, uranium, lead, zinc, tungsten, molybdenum, borates, phosphorite, copper, potassium and cadmium. It ranks third amongst CIS countries in terms of gold reserves, and is the eighth largest copper producing country in the world.

Almost all gold mining companies and properties have been fully privatized in Kazakhstan, the only country within the former Soviet Union to have done so. This allows gold doré and gold-copper concentrates to be freely exported and sold.

The laws of Kazakhstan have established a single investment regime for both domestic and foreign investors. The country guarantees stability of contracts where investors enter into contracts with Kazakh State agencies, with the exception of a change of law intended for national or ecological security, public health or morality, or if it affects the procedure or conditions of import, production and/or sales of excisable goods.

Kazakhstan's bond rating has recently been upgraded by Moody's to BAA3 with a positive outlook, which is similar to Mexico.

Compelling Takeover Target

The abrupt turn up in the fortunes of world commodity markets has reflected a confluence of factors on both the demand and supply sides of the equation. Over the past decade, demand for most commodities picked up strongly, owing to rapid industrialization of China, India and other developing economies. In contrast, the supply of commodities lagged behind, constrained by cuts to exploration budgets in the 1990s. Accordingly, supply-demand balances for many commodities have tightened significantly. Other global factors also swung in support of commodity prices, including a structural decline in the U.S. dollar and the rekindling of global inflationary pressures that provided a boost to real asset prices.

We are seeing a global move towards consolidation in the resource and gold sectors at a time when most groups are generating surplus cash, adding significant fuel to the process. So far, M&A activity has largely been restricted to the top end of the market, as we are still living off the successes of previous cycles from 10 and 20 years ago. While there has not been much focus in the mid-cap and small cap area yet, inevitably the increasing buildup of cash and the lure of deeply discounted discoveries and ready-to-deliver projects with technical and financial risk removed will prove to be an irresistible draw.

It has been estimated that as much as \$100 billion in investment funds have been directed into commodities worldwide over the past few years. While an improvement in fundamentals got the ball rolling in 2002-03, the momentum has been sustained in part by growing investor enthusiasm. Notably, the commodity market has also become increasingly attractive to large institutional investors – such as hedge funds and pension funds – in view of abundant liquidity, declining relative returns on fixed-income investments and the launch of exchange-traded funds (ETFs) and other investment vehicles that have facilitated direct investor participation in commodities. While volatility can be expected, the trends are strong and likely to continue.

Technical & Summary

With European now half-way through building their mine, investors have an opportunity to lock in returns with the geological and financial risk virtually eliminated. Post-financing, and with little promotional news to keep investor interest, the share price saw a severe drop to 50% off recent highs where a double-top spike telegraphed a warning. Price found support on its long term uptrend line at around \$0.70 and has started to lift, now flirting with resistance at the \$0.90 area.

The company is substantially undervalued given its development-stage, compared with gold companies' average market capitalization per ounce of gold reserves and resources at about \$120. European, with a market cap of roughly \$236 million at 87 cents, and 3.82 million ounces in reserves/resources, has a market cap per ounce of only \$63. This is calculated with European's base case scenario, with gold valued at \$375/oz and copper at \$1 per pound. Metal prices are obviously a lot higher now, leaving substantial inherent upside for patient bargain and value investors.

One near term event that may spike investor interest early is a new development plan and scoping study is due out over the next month or two. This will likely provide a higher base case valuation. In addition, the Varvarinskoye orebody is actually designed with several mining pits that, with higher metal prices, may end up being combined into one big pit, thereby further increasing project economics.

Website: www.eurominerals.com

Your Source for High-Potential Early-Stage Growth Stocks Since 1995

Copyright © 2006 by Diversified Financial Solutions, Inc. All Rights Reserved.

DISCLAIMER

The information found in this profile is protected by copyright laws and may not be copied, or reproduced in any way without the expressed, written consent of the editors of Growth Stocks Weekly.

Growth Stocks Weekly is an independent electronic publication committed to providing our subscribers with factual information on selected publicly traded companies, business, and economics. All companies are chosen on the basis of certain financial analysis, and other pertinent criteria with a view toward maximizing the upside potential for investors while minimizing the downside risk, whenever possible with the added aid of technical analysis. Growth Stocks Weekly and its editors do not accept compensation from public companies featured in this publication.

All statements and expressions are the sole opinions of the editors and are subject to change without notice. A profile, description, or other mention of a company in the newsletter is neither an offer nor solicitation to buy or sell any securities mentioned. While we believe all sources of information to be factual and reliable, in no way do we represent or guarantee the accuracy thereof, nor the statements made herein.

The staff of Growth Stocks Weekly are not registered investment advisors and do not purport to offer personalized investment related advice. The publisher, staff, or anyone associated with, or associated to, the Growth Stocks Weekly may own securities mentioned in this newsletter and may buy or sell securities without notice.

The profiles, critiques, and other editorial content of the Growth Stocks Weekly may contain forward-looking statements relating to the expected capabilities of the companies mentioned herein. The reader should verify all claims and do their own due diligence before investing in any securities mentioned. Investing in securities is speculative and carries a high degree of risk.

We encourage our readers to invest carefully and read the investor information available at the web sites of the Securities and Exchange Commission ("SEC") at <http://www.sec.gov> and/or the National Association of Securities Dealers ("NASD") at <http://www.nasd.com>. We also strongly recommend that you read the SEC advisory to investors concerning Internet Stock Fraud, which can be found at <http://www.sec.gov/consumer/cyberfr.htm>.

Readers can review all public filings by companies at the SEC's EDGAR page in the U.S. and SEDAR's electronic filing of securities information as required by the securities regulatory agencies in Canada at www.sedar.com. The NASD has published information on how to invest carefully at its web site.