

European Goldfields Limited

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2009

The following discussion and analysis, prepared as at 12 May 2009, is intended to assist in the understanding and assessment of the trends and significant changes in the results of operations and financial conditions of European Goldfields Limited (the "**Company**"). Historical results may not indicate future performance. Forward-looking statements are subject to a variety of factors that could cause actual results to differ materially from those contemplated by these statements. The following discussion and analysis should be read in conjunction with the Company's unaudited consolidated financial statements for the three-month periods ended 31 March 2009 and 2008 and accompanying notes (the "**Consolidated Financial Statements**").

Additional information relating to the Company, including the Company's Annual Information Form, is available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. Except as otherwise noted, all dollar amounts in the following discussion and analysis and the Consolidated Financial Statements are stated in United States dollars.

Overview

The Company, a company incorporated under the *Yukon Business Corporations Act*, is a resource company involved in the acquisition, exploration and development of mineral properties in Greece, Romania and South-East Europe.

The Company's Common Shares are listed on the AIM Market of London Stock Exchange plc and on the Toronto Stock Exchange (TSX) under the symbol "EGU".

Greece – European Goldfields holds a 95% interest in Hellas Gold S.A. Hellas Gold owns three major gold and base metal deposits in Northern Greece. The deposits are the polymetallic operation at Stratoni, the Olympias project which contains gold, zinc, lead and silver, and the Skouries copper/gold porphyry project. Hellas Gold commenced production at Stratoni in September 2005 and commenced selling an existing stockpile of gold concentrates from Olympias in July 2006. Hellas Gold is applying for permits to develop the Skouries and Olympias projects.

Romania – European Goldfields owns 80% of the Certej gold/silver project in Romania. In July 2008, the National Agency of Mineral Resources approved the technical feasibility study in support of its permit application and issued a new mining permit for the Certej project.

Results of operations

The Company's results of operations for the three-month period ended 31 March 2009 were comprised primarily of activities related to the results of operations of the Company's 95%-owned subsidiary Hellas Gold in Greece and the Company's exploration and development program in Romania. Hellas Gold's operational results for the eight most recently completed quarters are summarised in the following tables:

Stratoni Mine (Greece)								
	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2
Inventory (start of period)								
Ore mined (wet tonnes)	1,778	6,489	1,003	2,816	-	4,868	4,603	843
Zinc concentrate (tonnes)	2,975	2,078	5,660	2,745	1,689	2,797	2	3,524
Lead/silver concentrate (tonnes)	488	1,294	1,238	2,213	49	2,042	2,150	1,846
Production								
Ore mined (wet tonnes)	56,892	70,468	69,847	73,137	58,208	50,643	56,075	53,088
Ore milled (tonnes)	52,984	73,320	63,040	73,280	53,675	53,813	54,499	48,179
- Average grade: Zinc (%)	7.85	8.80	8.82	10.37	9.37	9.00	8.42	11.57
Lead (%)	6.42	6.54	6.40	6.21	5.35	8.12	7.55	9.14
Silver (g/t)	166	167	160	155	134	206	186	232
Zinc concentrate (tonnes)	7,932	12,106	10,451	14,139	9,427	9,082	8,506	10,485
- Containing: Zinc (tonnes)	3,827	5,914	5,132	7,004	4,644	4,425	4,194	5,170
Lead concentrate (tonnes)	4,667	6,750	5,531	6,443	4,035	6,012	5,586	5,955
- Containing: Lead (tonnes)	3,129	4,434	3,726	4,201	2,653	4,021	3,781	4,109
Silver (oz)	240,366	336,336	280,305	316,354	207,215	316,837	297,059	328,879
Sales								
Zinc concentrate (tonnes)	10,306	11,210	14,033	11,224	8,371	10,191	5,710	14,007
- Containing payable: Zinc (tonnes)*	4,152	4,591	5,818	4,633	3,454	4,209	2,364	5,855
Lead concentrate (tonnes)	3,762	7,556	5,475	7,418	1,872	8,004	5,694	5,651
- Containing payable: Lead (tonnes)*	2,347	4,775	3,495	4,628	1,188	5,082	3,759	3,636
Silver (oz)*	183,504	363,205	263,464	355,298	95,582	399,272	297,321	285,349
Cash operating cost per tonne milled (\$)	156	145	164	161	164	175	144	135
Cash operating cost per tonne milled (€)	119	109	109	103	110	121	105	100
Inventory (end of period)								
Ore mined (wet tonnes)	4,010	1,778	6,489	1,003	2,816	-	4,868	4,603
Zinc concentrate (tonnes)	602	2,975	2,078	5,660	2,745	1,689	2,797	2
Lead/silver concentrate (tonnes)	1,393	488	1,294	1,238	2,213	49	2,042	2,150
Financial information (in thousands of US dollars)								
Sales (\$)	4,935	8,465	13,250	13,000	10,097	18,483	16,634	22,866
Gross profit (\$)	(4,345)	(7,060)	171	(198)	3,060	6,147	8,425	13,991
Capital expenditure (\$)	4,214	3,543	2,496	2,086	3,111	3,779	12,142	4,673
Amortisation and depletion (\$)	1,320	1,827	1,571	1,215	997	2,000	1,256	837

* Net of smelter payable deductions

Sale of Gold-Bearing Concentrates from Existing Stockpile at Olympias (Greece)								
	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2
Sales								
Gold concentrate (dmt)	26,832	18,566	12,710	22,479	9,778	21,385	28,393	12,686
Financial information (in thousands of US dollars)								
Sales (\$)	5,807	4,309	2,851	5,461	2,611	4,232	5,029	2,078
Gross profit (\$)	4,003	2,995	1,222	3,668	1,789	1,279	2,848	958
Amortisation and depletion (\$)	153	106	72	129	56	(134)	265	76

Realised lead and zinc prices for the quarter remained low, and lower tonnages of higher value lead concentrate were sold resulting in lower base metal revenues for Q1 2009 compared to Q4 2008. However, sales of Olympias gold concentrates were up 45% resulting in a revenue increase of 35%.

Q1 2009 unit operating costs were impacted by reduced levels of throughput at the mill, increasing to €119 per tonne from €109 per tonne in Q4 2008. Cost savings of €4 per wet metric tonne were achieved in the new mining contract cost, but higher levels of operating development and the impact of lower throughput more than offset this.

Summary of quarterly results

The Company's financial results for the eight most recently completed quarters are summarised in the following table:

	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2
<i>(in thousands of US dollars, except per share amounts)</i>	\$	\$	\$	\$	\$	\$	\$	\$
Statement of profit and loss								
Sales	10,742	12,774	16,101	18,461	12,708	22,715	21,663	24,944
Cost of sales	11,084	16,839	14,708	14,991	7,859	15,289	10,390	9,995
Gross profit	(342)	(4,065)	1,393	3,470	4,849	7,426	11,273	14,949
Interest income	508	1,164	1,306	1,502	1,757	2,699	2,320	1,116
Foreign exchange gain/(loss)	(2,882)	(6,253)	(2,800)	(27)	2,674	(2,173)	6,494	(265)
Hedge contract profit	2,417	3,165	1,362	391	-	-	-	-
Share of loss in equity investment	(26)	(3)	(66)	(36)	-	-	-	-
Expenses	3,740	5,253	6,054	5,058	5,017	6,385	4,819	4,875
Profit/(loss) before income tax	(3,979)	(11,245)	(4,859)	242	4,263	1,567	15,268	10,925
Income taxes	540	17,067	(451)	644	(621)	2,062	(2,764)	(2,796)
Profit/(loss) after income tax	(3,439)	5,822	(5,310)	886	3,642	3,629	12,504	8,129
Non-controlling interest	183	519	267	(74)	(233)	(29)	(348)	(2,794)
Profit/(loss) for the period	(3,256)	6,341	(5,043)	812	3,409	3,600	12,156	5,335
Earnings/(loss) per share	(0.02)	0.04	(0.03)	0.00	0.02	0.02	0.07	0.04
Balance sheet (end of period)								
Working capital	176,319	192,675	208,609	216,822	225,673	226,431	224,289	211,637
Total assets	757,206	766,095	775,369	796,537	794,911	782,131	744,998	729,774
Non current liabilities	154,882	155,727	183,881	185,897	184,635	182,092	168,170	165,125
Statement of cash flows								
Deferred exploration and development costs – Romania	885	1,981	1,420	1,092	1,603	2,133	1,658	1,248
Plant and equipment – Greece	8,953	12,998	2,971	3,065	7,147	3,779	12,142	4,673
Deferred development costs – Greece	519	545	519	656	769	915	491	520

The breakdown of deferred exploration and development costs per mineral property for the three-month periods ended 31 March 2009 and 2008 is as follows:

	Three-month periods ended 31 March			
	2009		2008	
<i>(in thousands of US dollars)</i>	\$	%	\$	%
Romanian mineral properties				
Certej	791	89	1,806	91
Other	94	11	175	9
	885	100	1,981	100
Greek mineral properties				
Stratoni	101	19	(22)	(4)
Skouries	351	68	396	73
Olympias	61	12	77	14
Other	6	1	94	17
	519	100	545	100
Total	1,404		2,526	

The Certej exploitation licence and the Baita-Craciunesti exploration licence are held by the Company's 80%-owned subsidiary, Deva Gold S.A. ("**Deva Gold**"). Minvest S.A. (a Romanian state owned mining company), together with three private Romanian companies, hold the remaining 20% interest in Deva Gold. The Company is required to fund 100% of all costs related to the exploration and development of these properties. As a result, the Company is entitled to the refund of such costs (plus interest) out of future cash flows generated by Deva Gold, prior to any dividends being distributed to shareholders. The Voia and Caineal exploration licences are held by the Company's wholly-owned subsidiary, European Goldfields Deva SRL.

The Company recorded a loss (before tax) of \$3.98 million for the three-month period ended 31 March 2009, compared to a profit (before tax) of \$4.26 million for the same period of 2008. The Company recorded a net loss (after tax and non-controlling interest) of \$3.26 million (\$0.02 per share) for the three-month period ended 31 March 2009, compared to a net profit of \$3.41 million (\$0.02 per share) for the same period of 2008.

The following factors have contributed to the above:

- The key revenue drivers have been base metal commodity prices and sale of gold concentrate. During the quarter ended 31 March 2009, the zinc price averaged \$1,208 per tonne, a 51% fall compared to the zinc price of \$2,460 for the comparable period in 2008. The lead price suffered a more extreme fall of 60%: the lead price averaged approximately \$1,172 per tonne in Q1 2009 compared to \$2,900 per tonne in Q1 2008. Volatility of metal prices against Q4 2008 was much less severe, so that there were no material price adjustments to prior quarter sales in Q1 2009. As a result, base metal concentrate revenues for Q1 2009 fell by 51% compared to Q1 2008. Whilst euro denominated unit operating costs were marginally higher in Q1 2009 compared to Q1 2008, a weaker euro resulted in lower US dollar unit operating costs. There was significant improvement in gold concentrate sales: in Q1 2009, Hellas Gold sold 26,832 tonnes of gold bearing pyrite concentrates from Olympias, an increase of 175% compared to the same period of 2008, and in a similar gold price environment, yielding higher revenues and profits. In total, however, lower base metal prices dominated any benefits from the higher gold concentrate revenues, with the result that revenues and profitability declined in Q1 2009 compared to the same period of 2008.
- As a result, the Company recorded a gross loss of \$0.34 million on revenues of \$10.74 million in Q1 2009, compared to a gross profit of \$4.85 million on revenues of \$12.71 million for the same period of 2008. Cost of sales of \$11.08 million compared to \$7.86 million for the same period of 2008, reflect the fact that although direct mining costs fell, this was offset by a smaller credit movement in stockpile values and higher freight charges (as more material has been shipped in containers from Thessaloniki rather than fob Stratoni). Cost of sales in Q1 2009 also included higher levels of depreciation and depletion of \$1.47 million in amortisation and depletion expenses, compared to \$1.05 million for the same period of 2008.
- The Company's corporate administrative and overhead expenses have decreased from \$1.26 million in Q1 2008, to \$1.00 million for the same period of 2009. This reflects the results of cost control initiatives put in place in Q4 2008.
- The Company recorded a non-cash equity-based compensation expense of \$0.43 million in Q1 2009, compared to \$0.47 million for the same period of 2008. In Q1 2009, the Company continued a practice of recharging some of its equity-based compensation expense to its operating subsidiaries, a portion of which is capitalised by such subsidiaries.
- The Company recorded a foreign exchange loss of \$2.88 million in Q1 2009. The Q1 loss resulted primarily from the translation of Euro working capital balances held by Hellas Gold into a US dollar functional currency, as the Euro further weakened against the US dollar across Q1 2009. In contrast, the Company realised a foreign exchange gain of \$2.67 million in Q1 2008.
- In Q1 2009, Hellas Gold's administrative and overhead expenses amounted to \$1.15 million, compared to \$2.06 million for the same period of 2008. Hellas Gold's administrative and overhead expenses include the costs of the Athens based office, environmental, water treatment and other expenses not directly attributable to the Stratoni operation. The change in these costs relates primarily to a lower US\$/Euro exchange rate and a reduction in cost of various projects in communities around the mine.
- In Q1 2009, Hellas Gold incurred an expense of \$0.96 million, compared to \$1.04 million for the same period of 2008, for ongoing water pumping and treatment at its non-operating mines of Olympias and Stratoni (Madem Lakkos), in compliance with Hellas Gold's commitment to the environment under its contract with the Greek State.

- The Company recorded a credit for income taxes of \$0.54 million in Q1 2009, compared to a charge of \$0.62 million for the same period of 2008 reflecting the shift from generating operational profits to losses between the two periods.
- The Company recorded a credit of \$0.18 million in Q1 2009 relating to the non-controlling shareholder's interest in Hellas Gold's profit (after tax) for this period, compared to a charge of \$0.23 million for the same period of 2008 for the same reason.

Liquidity and capital resources

As at 31 March 2009, the Company had cash and cash equivalents of \$154.00 million, compared to \$170.30 million as at 31 December 2008, and working capital of \$176.32 million, compared to \$192.68 million as at 31 December 2008.

The decrease in cash and cash equivalents as at 31 March 2009, compared to the balances as at 31 December 2008, resulted primarily from capital expenditure in Greece (\$8.95 million), changes in working capital balances (\$3.62 million), the effect of foreign currency translation on cash (\$3.26 million), deferred exploration and development costs in Romania (\$0.89 million) and deferred development costs in Greece (\$0.52 million), offset by operating cash flow (\$0.70 million) and proceeds from exercise of share options (\$0.56 million).

The following table sets forth the Company's contractual obligations including payments due for each of the next five years and thereafter:

Contractual obligations	Payments due by period (in thousands of US dollars)				
	Total	Less than 1 year	2 – 3 years	4 – 5 years	After 5 years
Operating lease (London office)	698	140	279	279	-
Operating lease (Athens office)	1,038	138	277	277	346
Outotec OT – Processing Plant	21,996	21,996	-	-	-
Total contractual obligations	23,732	22,274	556	556	346

In 2009, the Company expects to spend a total of \$51 million in capital expenditures to fund the development of its project portfolio. This amount comprises \$5 million at its existing operation at Stratoni to complete the expansion of the internal underground infrastructure at Mavres Petres and upgrade the mill, \$10 million at Olympias as part of the refurbishment of the mine and process plant, and \$30 million at Skouries as the Company expects to continue to spend on long lead time equipment and engineering studies. At Certej, the Company expects to spend \$6 million as it progresses through the final stages of environmental permitting, advances through the basic and detailed engineering phases and continues exploration around Certej. In addition to its capital expenditure programme, the Company expects to spend \$3 million in exploration over the wider licence area in Greece and Turkey, \$9 million on Hellas Gold administrative and overhead and water treatment expenses, and \$5 million on corporate administrative and overhead expenses. The Company expects to fund all such costs from existing cash balances and operating cash flow generated from its Hellas Gold operations

Significant changes in accounting policies

International Financial Reporting Standards (“IFRS”) – In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, and in April 2008, the AcSB issued for comment its Omnibus Exposure Draft, Adopting IFRS in Canada. Early adoption may be permitted, however it will require exemptive relief on a case by case basis from the Canadian Securities Administrators.

The Company has begun assessing the adoption of IFRS and is in the process of completing its overall conversion plan. The plan assesses the possible benefits of early adoption, the key differences between IFRS and Canadian GAAP including disclosures as well as a timeline for implementation.

As part of the plan, the Company has appointed a team within the group finance function to assess and implement the conversion process, and key personnel have received IFRS training. The Company benefits from having members of the finance function at the subsidiary level who are already experienced in the preparation of IFRS accounts. The team has already identified the material differences between IFRS and Canadian GAAP, and the process of identifying other areas of potential differences is near completion. The Company has already been preparing a detailed reporting pack under IFRS on a quarterly basis. This IFRS pack includes accounting adjustments for all material differences between IFRS and Canadian GAAP, with the exception of IFRS 1. During 2009, the team will focus on preparation for the implementation of IFRS 1, and the increased level of IFRS disclosure compared to Canadian GAAP.

Goodwill and intangible assets – In February 2008, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3064 Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company adopted the new standards on 01 January 2009. The adoption of this new Section had no impact on the consolidated financial statements.

Outstanding share data

The following represents all equity shares outstanding and the numbers of common shares into which all securities are convertible, exercisable or exchangeable as at 12 May 2009:

Common shares:	179,857,381
Common share options:	3,191,665
Restricted share units:	<u>614,779</u>
Common shares (fully-diluted):	183,663,825

Preferred shares:	Nil
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Outlook

Reference is made to the Company’s news release dated 12 May 2009 which accompanies this Management’s Discussion and Analysis.

Risks and uncertainties

The risks and uncertainties affecting the Company, its subsidiaries and their business are discussed in the Company’s Annual Information Form for the year ended 31 December 2008, filed on SEDAR at www.sedar.com.