



eldorado gold

## **Eldorado Gold Corporation**

Consolidated Financial Statements

**December 31, 2006 and 2005**

(Expressed in thousands of U.S. dollars)

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## **Management's Responsibility for Financial Reporting**

Management of Eldorado Gold Corporation is responsible for the integrity and fair presentation of the financial information contained in this annual report. Where appropriate, the financial information, including financial statements, reflects amounts based on the best estimates and judgments of management. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that disclosed in the financial statements.

Management is responsible for establishing and maintaining adequate internal control 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. The system of controls is also supported by a professional staff of outside advisors who conduct periodic audits of many aspects of the Company's operations and report their findings to management and the Audit Committee. Management has a process in place to evaluate

Management has a process in place to evaluate internal control over financial reporting based on the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework. Based on that evaluation, management has concluded that internal control over financial reporting was effective as of December 31, 2006.

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee, which is composed entirely of independent directors. The Audit Committee meets periodically with management, the Company's outside advisors and the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, appointed by the shareholders, has audited the Company's financial statements in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the auditor's report. Management's assessment of the effectiveness of the Company's internal control over financial reporting as at December 31, 2006, has also been audited by PricewaterhouseCoopers LLP, and their opinion is included in their report.

*(Signed) Paul N. Wright*

Paul N. Wright  
President and Chief Executive Officer

*(Signed) Earl W. Price*

Earl W. Price  
Chief Financial Officer

March 22, 2007  
Vancouver, British Columbia, Canada

## **Independent Auditors' Report**

### **To the Shareholders of Eldorado Gold Corporation**

We have completed an integrated audit of the consolidated financial statements and internal control over financial reporting of Eldorado Gold Corporation as of December 31, 2006 and audits of its December 31, 2005 and 2004 consolidated financial statements. Our opinions, based on our audits, are presented below.

#### **Consolidated financial statements**

We have audited the accompanying consolidated balance sheets of Eldorado Gold Corporation as of December 31, 2006 and 2005, and the related consolidated statements of operations and cash flow for each of the three years in the period ended December 31, 2006. These 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 audit of the Company's financial statements as of December 31, 2006 and for the year then ended in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). We conducted our audits of the Company's financial statements as of December 31, 2005 and 2004 and for each of the two years in the period ended December 31, 2005 in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A financial statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

#### **Internal control over financial reporting**

We have also audited management's assessment, included in management's Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the COSO. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the COSO.

*(Signed) PricewaterhouseCoopers LLP*

**Chartered Accountants**

March 22, 2007  
Vancouver, British Columbia, Canada

# Eldorado Gold Corporation

## Consolidated Balance Sheets

(Expressed in thousands of U.S. dollars)

	December 31, 2006 \$	December 31, 2005 \$
<b>Assets</b>		
Current assets		
Cash and cash equivalents	59,967	33,826
Restricted cash (note 3)	21,250	-
Accounts receivable and prepaids (note 4)	28,306	17,138
Inventories (note 5)	35,697	7,597
Future income taxes (note 11)	10,182	-
	<u>155,402</u>	<u>58,561</u>
Restricted cash (note 3)	58,300	50,000
Mining interests (note 6)	311,080	209,936
Goodwill (note 7)	2,238	2,238
	<u>527,020</u>	<u>320,735</u>
<b>Liabilities</b>		
Current liabilities		
Bank indebtedness (note 8)	15,367	-
Accounts payable and accrued liabilities	29,267	21,036
Current portion of long term debt (note 9)	333	309
Current portion of asset retirement obligations (note 10)	8,271	-
	<u>53,238</u>	<u>21,345</u>
Long term debt (note 9)	50,499	50,832
Contractual severance obligations	3,216	2,437
Asset retirement obligations (note 10)	5,420	11,143
Future income taxes (note 11)	18,742	10,051
	<u>131,115</u>	<u>95,808</u>
<b>Shareholders' Equity</b>		
Share capital (note 12(a))	740,061	573,721
Contributed surplus (note 12(d))	9,314	7,976
Deficit	(353,470)	(356,770)
	<u>395,905</u>	<u>224,927</u>
	<u>527,020</u>	<u>320,735</u>
Commitments (note 14)		

Approved on behalf of the Board of Directors

(Signed) Robert Gilmore

Director

(Signed) Paul N. Wright

Director

See accompanying notes to consolidated financial statements.

# Eldorado Gold Corporation

## Consolidated Statements of Operations

For the years ended December 31

(Expressed in thousands of U.S. dollars except per share amounts)

	2006 \$	2005 \$	2004 \$
<b>Revenue</b>			
Gold sales	77,641	29,680	33,153
Interest and other income	7,048	4,117	2,762
	<u>84,689</u>	<u>33,797</u>	<u>35,915</u>
<b>Expenses</b>			
Operating costs	45,850	35,378	33,109
Depletion, depreciation and amortization	1,763	9,798	4,431
General and administrative	19,030	14,937	8,425
Exploration	12,719	7,386	4,312
Accretion of asset retirement obligation	661	484	430
Foreign exchange (gain) loss	(2,050)	547	(196)
(Gain) on disposal of assets	(945)	(5,727)	(30)
Interest and financing costs	1,586	88	25
Write down of assets	2,186	19,537	-
	<u>80,800</u>	<u>82,428</u>	<u>50,506</u>
<b>Income (loss) before income taxes</b>	<u>3,889</u>	<u>(48,631)</u>	<u>(14,591)</u>
<b>Income tax (expense) recovery</b>			
Current	(2,080)	(152)	1,406
Future	1,491	(343)	(757)
	<u>(589)</u>	<u>(495)</u>	<u>649</u>
<b>Net income (loss) for the year</b>	3,300	(49,126)	(13,942)
<b>Deficit, beginning of year</b>	<u>(356,770)</u>	<u>(307,644)</u>	<u>(293,702)</u>
<b>Deficit, end of year</b>	<u>(353,470)</u>	<u>(356,770)</u>	<u>(307,644)</u>
<b>Weighted average number of shares outstanding</b>			
Basic weighted average number of common shares outstanding	<u>337,376</u>	<u>284,004</u>	<u>257,643</u>
Diluted weighted average number of common shares outstanding	<u>339,177</u>	<u>284,004</u>	<u>257,643</u>
<b>Earnings per share</b>			
Basic income (loss) per share - US\$	0.01	(0.17)	(0.05)
Diluted income (loss) per share - US\$	0.01	(0.17)	(0.05)
Basic income (loss) per share - Cdn\$	0.01	(0.19)	(0.07)
Diluted income (loss) per share - Cdn\$	0.01	(0.19)	(0.07)

See accompanying notes to consolidated financial statements.

**Eldorado Gold Corporation**  
Consolidated Statements of Cash Flows  
For the years ended December 31

(Expressed in thousands of U.S. dollars)

	2006 \$	2005 \$	2004 \$
<b>Cash flows generated from (used in):</b>			
<b>Operating activities</b>			
Net earnings (loss) for the year	3,300	(49,126)	(13,942)
Items not affecting cash			
Accretion of asset retirement obligation	661	484	430
Amortization of hedging gain	-	-	329
Contractual severance expense	1,377	1,801	318
Depletion, depreciation and amortization	1,763	9,798	4,431
Foreign exchange loss	-	-	11
Future income taxes	(1,491)	343	757
Loss (gain) on disposal of assets	515	(227)	8
Imputed interest and financing costs	91	-	-
Contractual severance obligation	(598)	-	-
Stock-based compensation	3,542	2,426	3,720
Write down of assets	-	19,537	28
	9,160	(14,964)	(3,910)
Changes in non-cash working capital (note 13)	(31,668)	4,478	(6,955)
	(22,508)	(10,486)	(10,865)
<b>Investing activities</b>			
Acquisition of property, plant and equipment for cash	(88,299)	(88,758)	(22,772)
Proceeds on disposal of mining interest	1,845	227	357
Deferred development expenditures on non-producing properties	(6,871)	(650)	(573)
Value added taxes recoverable on mining interest investments	(7,579)	(8,759)	-
Restricted cash	(29,550)	(50,000)	-
Acquisition of Afcan, net of cash received	-	664	-
Proceeds from disposal of investments	-	-	70
	(130,454)	(147,276)	(22,918)
<b>Financing activities</b>			
Long term debt proceeds received	-	50,000	-
Repayment of long term debt	(400)	(986)	-
Proceeds from bank indebtedness	15,367	-	-
Share issuance costs	(7,089)	-	-
Issuance of common shares for cash	171,225	7,184	63,708
	179,103	56,198	63,708
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>26,141</b>	<b>(101,564)</b>	<b>29,925</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>33,826</b>	<b>135,390</b>	<b>105,465</b>
<b>Cash and cash equivalents - end of year</b>	<b>59,967</b>	<b>33,826</b>	<b>135,390</b>
<b>Supplementary cash flow information (note 13)</b>			

See accompanying notes to consolidated financial statements.

# Eldorado Gold Corporation

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

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(Expressed in thousands of U.S. dollars, unless otherwise stated)

#### 1. Nature of operations

Eldorado Gold Corporation (“Eldorado” or the “Company”) is engaged in exploration for, and development and mining of gold. The Company has on-going exploration and development projects in Brazil, China and Turkey. On July 1, 2006, the Company commenced production in Turkey. Production in China commenced on February 1, 2007. Production operations in Brazil ceased in the first quarter of 2007.

#### 2. Significant accounting policies

##### *(a) Basis of presentation and principles of consolidation*

These consolidated financial statements include the accounts of the Company and its subsidiaries prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), and presented in United States dollars. As disclosed in note 16, Canadian GAAP differs in certain material respects from accounting principles generally accepted in the United States (“US GAAP”).

All material inter-company balances and transactions have been eliminated.

##### *(b) Use of estimates*

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include assumptions and estimates relating to determining defined ore bodies, reserves value beyond proven and probable mine life, fair values for purposes of impairment analysis, reclamation obligations, non-cash stock-based compensation and warrants, valuation allowances for future income tax assets, and future income tax liabilities. Actual results could differ from these estimates.

##### *(c) Cash and cash equivalents*

Cash and cash equivalents consist of cash and highly liquid investments having maturity dates of three months or less from the date of acquisition that are readily convertible to cash.

# Eldorado Gold Corporation

Notes to Consolidated Financial Statements  
December 31, 2006 and 2005

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(Expressed in thousands of U.S. dollars, unless otherwise stated)

## 2. Significant accounting policies (continued)

### (d) Inventories

- i. In-process inventory consists of stock piled ore, ore on leach pads, crushed ore, in-circuit material at properties with milling or processing operations and doré awaiting refinement, all valued at the lower of average cost or net realizable value. In-process inventory costs consist of direct production costs including mining, crushing and processing and allocated indirect costs, including depreciation, depletion and amortization of mining interests.

Inventory costs are charged to operations on the basis of ounces of gold sold. The Company regularly evaluates and refines estimates used in determining the costs charged to operations and costs absorbed into inventory carrying values based upon actual gold recoveries and operating plans.

- ii. Materials and supplies inventory consists of consumables used in operations such as fuel, chemicals, reagents and spare parts valued at the lower of average cost and replacement cost and, where appropriate, less a provision for obsolescence.

### (e) Investments

Investments in other companies where the Company does not exercise significant influence are carried at the lower of cost and quoted market value.

Investments where the Company has the ability to exercise significant influence are accounted for on the equity basis where the investment is initially recorded at cost and subsequently adjusted for the Company's share of the income or loss and capital transactions of the investee, less provision, if any, for other than temporary impairment in value.

### (f) Deposits

Deposits, such as those required by governmental authorities for possible environmental liabilities, are recorded at cost.

### (g) Fair value of financial instruments

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, bank indebtedness, and long term debt approximate their fair values.

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about the financial instruments.

# Eldorado Gold Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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(Expressed in thousands of U.S. dollars, unless otherwise stated)

## 2. Significant accounting policies (continued)

### (h) Mining interests

Mining interests include development expenditures and property, plant and equipment recorded at cost. Cost includes expenditures made on properties under development and the estimated fair value of any related asset retirement obligation at the time the obligation is originally recorded.

Mineral properties and capitalized development costs are depreciated, depleted and amortized over a mine's estimated life using the units of production method calculated on the basis of proved and probable reserves. Buildings, machinery, mobile and other plant and equipment are depreciated on a straight-line basis over the lesser of the estimated useful life of the assets and the remaining life of the mine.

Where events or changes in circumstances suggest impairment of long lived assets, estimated undiscounted future net cash flows are calculated using estimated future gold prices, proven and probable reserves, value beyond proven and probable reserves, and estimated net proceeds from the disposition of assets on retirement less operating and sustaining capital and reclamation costs. If projected undiscounted future cash flows are less than the carrying value, the estimated fair value is calculated using discounted future net cash flows and the asset is written down to fair value with an impairment charge to operations. Where future net cash flows cannot be estimated and other events or changes in circumstances suggest impairment, management determines whether the carrying cost is recoverable and fair value using best estimates and comparative situations in the market place.

### (i) Exploration and development

Exploration costs are charged against operations as incurred until a mineral resource having economic potential is identified on a property, from which time a property is considered to be a development project and such expenditures are capitalized as development costs.

### (j) Goodwill

Goodwill, which arose on the acquisition of Afcan Mining Corporation in 2005, represents a combination of the potential for the discovery of additional mineable ounces from properties or mining rights acquired in the transaction and the potential for increased revenues as a result of higher gold prices. Goodwill is not amortized.

The Company evaluates, on at least an annual basis, the carrying amount of goodwill to determine whether events or changes in circumstances indicate that the carrying amount may no longer be recoverable. To accomplish this, the Company compares the fair value of the reporting units to which goodwill was allocated to their carrying amounts. If the carrying value of a reporting unit exceeds its fair value, the Company would compare the implied fair value of the goodwill to its carrying value and any excess of the carrying value over the fair value would be charged to operations. Assumptions underlying fair value estimates are subject to significant risks and uncertainties.

# Eldorado Gold Corporation

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

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(Expressed in thousands of U.S. dollars, unless otherwise stated)

## 2. Significant accounting policies (continued)

### (k) Foreign currency translation

Monetary assets and liabilities denominated in currencies other than the United States dollar are translated into United States dollars using rates of exchange in effect at the balance sheet date. Revenue and expense items denominated in foreign currencies are translated at average rates in effect at the time of the related transaction. Non-monetary items are translated at historical rates. Any gains and losses are reflected in earnings.

### (l) Capital lease obligations

Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for as capital leases. Assets recorded under capital leases are amortized on a straight-line basis over the term of the lease. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

### (m) Asset retirement obligations

Asset retirement obligations ("ARO's") represent the estimated discounted net present value of statutory, contractual or other legal obligations relating to site reclamation and restoration costs that the Company will incur on the retirement of assets and abandonment of mine and exploration sites. ARO's are added to the carrying value of property, plant, equipment and mining interests as such expenditures are incurred and amortized against income over the useful life of the related asset. ARO's are determined in compliance with recognized standards for site closure and mine reclamation established by governmental regulation.

Over the life of the asset, imputed interest on the ARO liability is charged to operations as accretion of asset retirement obligations on the consolidated statement of operations using the discount rate used to establish the ARO. The offset of accretion expense is added to the balance of the ARO.

Where information becomes available that indicates a recorded ARO is not sufficient to meet, or exceeds, anticipated obligations, the obligation is adjusted accordingly and added to, or deducted from, the ARO.

### (n) Stock-based compensation

The Company has three share option plans, which are described in note 12(b). The Company records all stock-based compensation using the fair value method.

Under the fair value method, stock-based compensation is measured at the estimated fair value of the consideration received or the estimated fair value of the equity instruments issued or liabilities incurred, whichever estimate is more reliable. Compensation expense is recognized on the graded method over the stock option vesting period. Adjustments to compensation expense due to not meeting employment vesting requirements or expiry of unexercised options are accounted for in the period when the options expire or the vesting requirements are not met.

# Eldorado Gold Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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(Expressed in thousands of U.S. dollars, unless otherwise stated)

## 2. Significant accounting policies (continued)

Consideration received on the exercise of stock options and the related transfer from contributed surplus are recorded as share capital.

### (o) *Income taxes*

Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using income tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in rates is included in operations. A future income tax asset is recorded when the probability of the realization is more likely than not.

### (p) *Revenue recognition*

Revenue from the sale of bullion is recognized when persuasive evidence of an arrangement exists, the bullion has been shipped, title has passed to the purchaser, the price is fixed or determinable, and collection is reasonably assured.

### (q) *Earnings (loss) per share*

Earnings or loss per share are presented for basic and diluted net income (loss). Basic earnings per share is computed by dividing net income or loss by the weighted average number of outstanding common shares for the year.

The computation of diluted earnings per share reflects the dilutive effect of the exercise of stock options and warrants outstanding as at year-end using the treasury stock method. Diluted loss per share information is not disclosed as it would be anti-dilutive.

### (r) *Capitalization of interest*

Where the Company has secured debt financing to finance the cost of specific projects, interest is capitalized on the related construction and development project until the project commences commercial operation or the development ceases.

### (s) *Stripping costs*

Stripping costs incurred during the production phase of a mine are considered production costs and included in the cost of inventory produced during the period in which stripping costs are incurred. To the extent that the commercial production has not commenced pre-stripping costs are capitalized as mine development costs. Production is deemed to have commenced when saleable minerals excluding removal of de minimus material are extracted from an ore body.

# Eldorado Gold Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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(Expressed in thousands of U.S. dollars, unless otherwise stated)

## 3. Restricted cash

Restricted cash represents short term interest bearing money market securities and funds held on deposit as collateral:

	December 31, 2006 \$	December 31, 2005 \$
Current:		
Collateral account against HSBC Bank USA, National Association ("HSBC") letters of credit (note 9)	21,250	-
Non-current:		
Collateral account against the HSBC bank loan (note 10(a))	50,000	50,000
Environmental guarantee deposit	8,300	-
	<u>58,300</u>	<u>50,000</u>

The environmental guarantee deposit is held on account with a Turkish bank pursuant to environmental and pollution guarantees required by the Turkish Ministry of the Environment. The funds are invested at prevailing bank rates. Interest earned on these deposits is included in interest and other income as presented in the consolidated statement of operations.

## 4. Accounts receivable and prepaids

	December 31, 2006 \$	December 31, 2005 \$
Value added taxes recoverable	19,907	11,766
Other receivables and advances	3,325	3,297
Prepaid expenses and deposits	5,074	2,075
	<u>28,306</u>	<u>17,138</u>

## 5. Inventories

	December 31, 2006 \$	December 31, 2005 \$
In-process inventory including doré	30,002	4,804
Materials and supplies	5,695	2,793
	<u>35,697</u>	<u>7,597</u>

**Eldorado Gold Corporation**  
Notes to Consolidated Financial Statements  
December 31, 2006 and 2005

(Expressed in thousands of U.S. dollars, unless otherwise stated)

**6. Mining interests**

	<b>December 31, 2006</b>		
	<b>Cost</b>	<b>Accumulated depreciation, depletion and amortization</b>	<b>Net book value</b>
	\$	\$	\$
<b>Operating assets and mines under construction</b>			
Deferred development cost	72,726	761	71,965
Mining and processing equipment	113,526	7,269	106,257
Assets under construction	102,660	-	102,660
	<b>288,912</b>	<b>8,030</b>	<b>280,882</b>
<b>Non-producing properties under development</b>	<b>30,198</b>	<b>-</b>	<b>30,198</b>
	<b>319,110</b>	<b>8,030</b>	<b>311,080</b>
	<b>December 31, 2005</b>		
	<b>Cost</b>	<b>Accumulated depreciation, depletion and amortization</b>	<b>Net book value</b>
	\$	\$	\$
<b>Operating assets and mines under construction</b>			
Deferred development cost	72,147	157	71,990
Mining and processing equipment	29,145	3,810	25,335
Assets under construction	89,284	-	89,284
	<b>190,576</b>	<b>3,967</b>	<b>186,609</b>
<b>Non-producing properties under development</b>	<b>23,327</b>	<b>-</b>	<b>23,327</b>
	<b>213,903</b>	<b>3,967</b>	<b>209,936</b>

# Eldorado Gold Corporation

## Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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(Expressed in thousands of U.S. dollars, unless otherwise stated)

### 7. Acquisition of Afcan Mining Corporation

On September 13, 2005, the Company acquired all of the outstanding common shares of Afcan Mining Corporation (“Afcan”) and Afcan’s 85% interest in the Tanjianshan Gold Project (“Tanjianshan”), a project located in Qinghai Province in Western China (the “Afcan Transaction”). In addition to Tanjianshan, exploration opportunities exist within the property acquired. The Company issued 23,045,151 common shares to the shareholders of Afcan for all of Afcan’s outstanding common shares. In addition, the Company issued (or assumed the obligation to issue) 4,595,952 share purchase warrants and 91,538 fully vested stock options. Acquisition costs of \$1,258 were incurred by the Company.

This business combination has been accounted for as a purchase transaction, with the Company being identified as the acquirer and Afcan as the acquiree. These consolidated financial statements include 100% of Afcan’s operating results since September 14, 2005. As provided under the terms of the acquisition agreement, during 2006 ownership interest in the Tanjianshan project increased to 90% when the Company’s capital investment reached \$50,000.

The total Afcan share purchase price of \$58,738 was allocated as follows:

<b>Fair value of net assets acquired</b>	<b>\$</b>	<b>Purchase price consideration</b>	<b>\$</b>
Cash	11,922	Common shares of the Company	56,235
Accounts receivable and advances	1,991	Share purchase warrants	1,204
Inventory	437	Stock options	41
Fixed assets	497	Acquisition costs	<u>1,258</u>
Property, plant and equipment	64,500		
Goodwill	2,238		<u>58,738</u>
Accounts payable	(5,600)		
Loans payable to Sino Gold Limited	(2,127)		
Loan payable to the Company	(10,000)		
Future income taxes	<u>(5,120)</u>		
	<u>58,738</u>		

Upon acquisition, the Company received net cash proceeds from Afcan of \$664. Net cash proceeds consist of the cash balance acquired of \$11,922 less acquisition costs incurred of \$1,258 less the loan outstanding from Afcan to Eldorado of \$10,000.

# Eldorado Gold Corporation

## Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(Expressed in thousands of U.S. dollars, unless otherwise stated)

### 8. Bank indebtedness

During 2006, Qinghai Dachaidan Mining Limited (“QDML”), a 90% owned-subsiary of the Company and the operator of the Tanjianshan project, secured working capital loans from the China Construction Bank as follows:

	\$
80 million Chinese Renminbi one-year term demand loan due September 27, 2007, bearing annual interest of 5.814%	10,245
40 million Chinese Renminbi six-month term demand loan due June 24, 2007, bearing annual interest of 5.301%	<u>5,122</u>
	<u>15,367</u>

Interest on both loans is calculated monthly and payable quarterly.

The loans are collateralized by way of irrevocable letters of credit drawn on HSBC not to exceed \$21,250 in total. The letters of credit have an expiry date of February 17, 2007 that is deemed automatically extendable without amendment for a period of one year unless HSBC provides notice 45 days prior to the expiration date of its intent not to extend the term. The HSBC letters of credit are collateralized by the current portion of restricted cash, which is held by HSBC in a collateral account (note 3).

### 9. Long-term debt

	December 31, 2006	December 31, 2005
	\$	\$
HSBC revolving credit facility due February 28, 2010	50,000	50,000
Sino Gold Limited due December 31, 2009, net of imputed interest	832	1,141
	<u>50,832</u>	<u>51,141</u>
current portion:		
Sino Gold Limited, net of imputed interest	333	309
	<u>50,499</u>	<u>50,832</u>

#### (a) HSBC term revolving credit facility

HSBC has authorized advances of up to \$65,000 to Tuprag Metal Madencilik Sanayi Ve Ticaret Limited Surketi a wholly-owned subsidiary of the Company, (“Tuprag”) under the terms of a term revolving credit facility due February 28, 2010 (the “Credit Facility”). As at December 31, 2006, HSBC had advanced \$50,000. The Credit Facility can be drawn down in minimum tranches of \$1,000 plus multiples of \$250. Each drawdown bears interest fixed at the prevailing LIBOR plus 1.25% on the date each tranche is drawn down. To date, the Credit Facility has been drawn in four tranches bearing a weighted average interest rate of 6.00%. The Credit Facility is renewable at the Company’s option for the term of the loan.

# Eldorado Gold Corporation

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### 9. Long-term debt (continued)

Under the terms of the Credit Facility, Eldorado is required to fully collateralize any HSBC advances to Tuprag with funds of an equal amount deposited on account with HSBC as represented by \$50,000 included in non-current restricted cash (note 3) held on deposit in a collateral account with HSBC.

#### (b) Sino Gold loan

The consideration paid for the Tanjianshan property in 2003 included a non-interest bearing loan from Sino Gold Limited (the "Loan"). On acquisition of Afcan in September 2005, the balance of the Loan then outstanding was included in the determination of net assets acquired. Imputed interest has been calculated using a discount rate of 8%.

The Loan is repayable in equal annual installments of \$400 on December 31 of each year until 2008, with a final installment of \$150 due December 31, 2009.

	December 31, 2006 \$	December 31, 2005 \$
Balance outstanding on the stated Loan balance	950	1,350
Less: imputed interest	118	209
	832	1,141

### 10. Asset retirement obligations

	December 31, 2006			
	Brazil \$	China \$	Turkey \$	Total \$
Balance beginning of year	9,055	627	1,461	11,143
Net present value of estimated future obligations arising on revision of prior year's estimates	-	495	1,392	1,887
Accretion expense	540	33	88	661
	9,595	1,155	2,941	13,691
Less: current portion	8,271	-	-	8,271
	1,324	1,155	2,941	5,420
Estimated undiscounted value	9,822	1,775	5,919	17,516

**Eldorado Gold Corporation**  
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**10. Asset retirement obligations (continued)**

	<b>December 31, 2005</b>			
	<b>Brazil</b>	<b>China</b>	<b>Turkey</b>	<b>Total</b>
	\$	\$	\$	\$
Balance beginning of year	8,059	-	-	8,059
Net present value of estimated future obligations incurred on operations completed this year	512	627	1,461	2,600
Net present value of estimated future obligations arising on revision of prior year's estimates				
Accretion expense	484	-	-	484
Balance end of year	9,055	627	1,461	11,143
Less: current portion	-	-	-	-
Long term portion	9,055	627	1,461	11,143
Estimated undiscounted value	9,822	1,000	3,116	13,938

The ARO estimates attributable to Brazil and Turkey have been determined with reference to independent studies obtained by the Company during 2003 and 2006 respectively that assumed a closure in the first quarter of 2007 in Brazil and 2018 in Turkey.

In China, the ARO is based on management's fair value estimate of the closure costs assuming closure in 2014.

In all cases, the net present values contemplate a credit adjusted risk free interest rate of 6%.

# Eldorado Gold Corporation

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## 11. Income taxes

The significant components within the Company's future tax liability were as follows:

	December 31, 2006 \$	December 31, 2005 \$
Future income tax assets		
Mineral properties	4,688	8,879
Capital assets	13,622	14,742
Loss carry forwards	86,843	76,916
Mining interest investment allowance and other	13,864	11,174
Liabilities on reclamation accrual	6,057	5,615
	<hr/>	<hr/>
	125,074	117,326
Valuation allowance	(112,098)	(107,210)
	<hr/>	<hr/>
	12,976	10,116
Future income tax liabilities		
Mineral properties	2,656	5,924
Capital assets	10,001	7,219
Undistributed earnings of subsidiary	-	28
Unrealized gains on foreign exchange translation	8,879	6,996
	<hr/>	<hr/>
	21,536	20,167
	<hr/>	<hr/>
Net future income tax liabilities	8,560	10,051

Net future income tax liabilities of \$8,560 include current future income tax assets of \$10,182 related to the Turkish operations that have been recognized in the current year in respect of prior year's income tax losses and investment allowances because management believes it to be more likely than not, the benefit of these assets will be realized against current income taxes otherwise payable in 2007. Non-current future income tax liabilities of \$18,742 recognize liabilities for future income tax consequences attributable to differences between the carrying value of assets and liabilities and their respective values for income tax purposes.

# Eldorado Gold Corporation

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(Expressed in thousands of U.S. dollars, unless otherwise stated)

## 11. Income taxes (continued)

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial tax rates to income (loss) before income taxes. These differences result from the following items:

	2006	2005	2004
	\$	\$	\$
Combined Canadian federal and provincial statutory rate	1,327	(16,953)	(5,197)
Losses not recognized	1,070	14,069	4,049
Difference in foreign tax rates	(1,895)	(1,007)	(1,271)
Foreign exchange	4,239	3,351	3,816
Future income tax assets not previously recognized	(7,010)	(238)	(1,257)
Non-deductible expense and other items	2,858	1,273	(789)
	<u>589</u>	<u>495</u>	<u>(649)</u>

At December 31, 2006, the Company and its subsidiaries, excluding Brazil, had available losses for income tax purposes of approximately \$33,500 in Canada and \$10,000 in Turkey (December 31, 2005 - \$27,200 and \$22,300, respectively), expiring in various years from 2008 to 2026.

In addition, the Company's Brazilian subsidiaries have losses of \$208,000 (December 31, 2005 - \$177,000) which can be used to offset taxable income and \$188,000 (December 31, 2005 - \$160,000) which can be used to offset income for social contribution tax. These losses have no expiry date and can be used to offset 30% of income in any one year.

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**12. Shareholders' Equity**

*(a) Authorized share capital*

The Company's authorized share capital consists of an unlimited number of voting common shares without par value and an unlimited number of non-voting common shares without par value.

Voting common shares

	<b>Number of shares</b>	<b>Amount \$</b>
Balance, January 1, 2004	253,961,176	444,665
Shares issued upon exercise of share options, for cash	1,592,500	1,536
Shares issued upon exercise of warrants, for cash	10,100	32
Financing, net of issue costs	20,700,000	62,140
<b>Balance, December 31, 2004</b>	<b>276,263,776</b>	<b>508,373</b>
Shares issued upon exercise of share options, for cash	1,282,666	3,070
Shares issued for acquisition of Afcan	23,045,151	56,235
Shares issued upon exercise of Afcan warrants, for cash	1,985,785	4,114
Warrants reallocated to share capital upon exercise	-	303
Estimated fair value of share options exercised	-	1,626
<b>Balance, December 31, 2005</b>	<b>302,577,378</b>	<b>573,721</b>
Financing, February 2006, net of issue costs	34,500,000	154,406
Shares issued upon exercise of share options, for cash	1,476,075	4,234
Shares issued upon exercise of Afcan warrants, for cash	2,594,778	5,496
Warrants reallocated to share capital upon exercise	-	902
Estimated fair value of share options exercised	-	1,302
<b>Balance, December 31, 2006</b>	<b>341,148,231</b>	<b>740,061</b>

At December 31, 2006, there were no non-voting common shares outstanding.

*(b) Share option plans*

The Company has three share option plans ("Plans") approved by the shareholders under which share purchase options ("Options") can be granted to directors, officers, employees, and consultants.

The Company's Employee Plan, as amended from time to time, was established in 1994. Subject to a 10 year maximum, Employee Plan Options generally have a five year term. Employee Plan Options vest at the discretion of the Board of Directors at the time an Option is granted, typically in three separate tranches over two years. As at December 31, 2006, a total of 1,873,380 (December 31, 2005 - 2,574,046) Options were available to grant to employees, consultants or advisors under the Employee Plan.

# Eldorado Gold Corporation

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

(Expressed in thousands of U.S. dollars, unless otherwise stated)

#### 12. Shareholders' Equity (continued)

The Company's Directors and Officers Plan ("D&O Plan") was established in 2003 and amended in 2005. Subject to a 10 year maximum, D&O Plan Options generally have a five year term. D&O Options vest at the discretion of the Board of Directors at the time an Option is granted, typically in three separate tranches over two years. As at December 31, 2006, a total of 3,783,350 (December 31, 2005 - 4,658,350) Options were available to grant to directors and officers under the D&O Plan.

On acquisition, Afcan had an incentive stock option plan (the "Afcan Plan") under which three Afcan employees who continued to be employed by Eldorado had been granted options ("Old Afcan Options") that were fully vested. Under the terms of the Afcan Transaction, the Old Afcan Options were converted into New Afcan Options on the basis of one New Afcan Option for every 6.5 Old Afcan Options. Under this arrangement, the Toronto Stock Exchange approved 91,538 New Afcan Options to continue to be held under the Afcan Plan until exercised or expired. No further New Afcan Options are permitted to be granted under the Afcan Plan. As at December 31, 2006, 68,462 (December 31, 2005 - 91,538) New Afcan Options remain unexercised.

The continuity of share purchase options outstanding including the New Afcan Options is as follows:

	Weighted average exercise price Cdn\$	Number of options	Contractual weighted average remaining life (years)
Balance, December 31, 2004	3.25	5,638,000	3.3
Granted under the Employee Plan and the D&O Plan	3.29	2,805,000	
Granted under the Afcan Plan	1.47	91,538	
Exercised	2.82	(1,282,666)	
Expired or cancelled	3.53	<u>(75,000)</u>	
Balance, December 31, 2005	3.35	7,176,872	3.4
Granted	5.43	1,589,000	
Exercised	3.30	(1,476,075)	
Cancelled	3.37	<u>(13,334)</u>	
Balance, December 31, 2006	3.82	<u>7,276,463</u>	2.8

At December 31, 2006, 5,327,129 (December 31, 2005 - 5,373,739) share purchase options with a weighted average exercise price of Cdn\$3.59 (December 31, 2005 - Cdn\$3.33) had vested and were exercisable.

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**12. Shareholders' Equity** (continued)

Options outstanding at December 31, 2006 were as follows:

Range of exercise price Cdn\$	December 31, 2006			December 31, 2006	
	Total Options Outstanding		Weighted average exercise price Cdn\$	Exercisable Options	
	Shares	Weighted average remaining contractual life (years)		Shares	Weighted average exercise price Cdn\$
\$0.70 to \$0.99	100,000	0.2	0.70	100,000	0.70
\$1.00 to \$1.99	436,539	1.2	1.76	436,539	1.76
\$2.00 to \$2.99	20,923	1.5	2.22	20,923	2.22
\$3.00 to \$3.99	4,905,001	2.6	3.52	3,970,001	3.56
\$4.00 to \$4.99	500,000	3.2	4.62	350,000	4.56
\$5.00 to \$5.99	1,214,000	4.2	5.53	416,333	5.54
\$6.00 to \$6.07	100,000	4.3	6.07	33,333	6.07
	<u>7,276,463</u>	2.8	3.82	<u>5,327,129</u>	3.59

(c) *Stock based compensation expense*

The exercise prices of all Options granted during the period were at or above the market price at the grant date. Stock-based compensation expense is calculated using a Black-Scholes option pricing model to determine the estimated fair values of all Options granted. The value determined on the date an Option is granted is recorded over the vesting period of each respective option. This expense has been included in the undernoted expenses in the consolidated statements of operations as follows:

	2006	2005	2004
	\$	\$	\$
Operating costs	359	171	650
Exploration	170	294	176
Administrative	3,013	1,961	2,894
Total compensation cost recognized in operations, credited to contributed surplus	<u>3,542</u>	<u>2,426</u>	<u>3,720</u>

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**12. Shareholders' Equity** (continued)

The assumptions used to estimate the fair value of Options granted during the years ended December 31, 2006, 2005 and 2004 were:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Risk free interest rate (range)	4.0 - 4.5%	3.5% - 4.0%	2.5% to 3.5%
Expected volatility (range)	42 - 50%	50%	50%
Expected life (range)	4 - 5 years	4 years	3 years
Expected dividends	Nil	Nil	Nil

(d) *Contributed surplus*

The continuity of contributed surplus on the consolidated balance sheet is as follows:

	<b>Contributed Surplus</b>		<b>Total</b>
	<b>Attributable to:</b>		
	<b>Stock-based compensation</b>	<b>Other</b>	<b>\$</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance, December 31, 2004</b>	5,138	1,094	6,232
Attributed to the market value of Afcan warrants outstanding on acquisition	-	1,204	1,204
Credited to share capital on Afcan warrants exercised after acquisition	-	(302)	(302)
Value attributed to Afcan options on Afcan acquisition	41	-	41
Non-cash stock-based compensation Options exercised, credited to share capital	2,426	-	2,426
	(1,625)	-	(1,625)
<b>Balance, December 31, 2005</b>	5,980	1,996	7,976
Credited to share capital on Afcan warrants exercised after acquisition	-	(902)	(902)
Non-cash stock-based compensation Options exercised, credited to share capital	3,542	-	3,542
	(1,302)	-	(1,302)
<b>Balance, December 31, 2006</b>	8,220	1,094	9,314

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**13. Supplementary cash flow information**

	2006 \$	2005 \$	2004 \$
Changes in non-cash working capital			
Accounts receivable and prepaids	(3,589)	(1,892)	(5,492)
Inventories	(26,222)	(2,867)	(304)
Accounts payable and accrued liabilities	(1,857)	9,237	(1,159)
	<u>(31,668)</u>	<u>4,478</u>	<u>(6,955)</u>
Supplementary cash flow information			
Income taxes paid	434	262	166
Interest paid	2,566	16	-
Non-cash transactions			
Shares issued on acquisition of Afcan	-	56,235	-
Warrants issued in exchange for those of Afcan	-	1,204	-
Options issued in exchange for those of Afcan	-	41	-

**14. Commitments**

The Company's contractual obligations, not disclosed elsewhere, at December 31, 2006 comprise:

	2007 \$	2008 \$	2009 \$	2010 \$	2011 and later \$
Capital leases	29	36	27	-	-
Operating leases and property expenditures	1,572	1,572	1,572	1,572	5,216
Purchase obligations	59,298	14,761	12,252	11,715	-
Totals	<u>60,899</u>	<u>16,369</u>	<u>13,851</u>	<u>13,287</u>	<u>5,216</u>

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## 15. Segmented information

During the year ended December 31, 2006, the Company had four reporting segments. The Brazil reporting segment includes the operations of the São Bento mine and exploration activity in Brazil. The Turkey reporting segment includes the operations of the Kisladag mine and exploration and development activities in Turkey. The China reporting segment includes the operations of the Tanjianshan mine and exploration activities in China. The Tanjianshan mine in China did not commence commercial production until February 1, 2007. The corporate reporting segment includes the operations of the Company's corporate office.

	<b>December 31, 2006</b>				
	<b>Turkey</b>	<b>China</b>	<b>Brazil</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net mining interests					
Producing or under construction	130,145	140,749	9,020	968	280,882
Non-producing	28,570	-	1,628	-	30,198
	<b>158,715</b>	<b>140,749</b>	<b>10,648</b>	<b>968</b>	<b>311,080</b>
	<b>December 31, 2005</b>				
	<b>Turkey</b>	<b>China</b>	<b>Brazil</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net Mining interests					
Producing or under construction	91,297	83,556	10,860	896	186,609
Non-producing	23,327	-	-	-	23,327
	<b>114,624</b>	<b>83,556</b>	<b>10,860</b>	<b>896</b>	<b>209,936</b>

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**15. Segmented information** (continued)

**Operations**

	<b>2006</b>				
	<b>Turkey</b>	<b>China</b>	<b>Brazil</b>	<b>Corporate</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Revenue					
Gold sales	39,232	-	38,409	-	77,641
Interest and other income	310	82	1,154	5,502	7,048
	39,542	82	39,563	5,502	84,689
Expenses except the undernoted	19,248	465	36,514	10,091	66,318
Depletion, depreciation and amortization	1,489	39	-	235	1,763
Exploration	4,845	172	7,702	-	12,719
Income (loss) before tax	13,960	(594)	(4,653)	(4,824)	3,889
Income tax recovery (expense)	2,113	-	(2,636)	(66)	(589)
Net income (loss)	16,073	(594)	(7,289)	(4,890)	3,300
	<b>2005</b>				
	<b>Turkey</b>	<b>China</b>	<b>Brazil</b>	<b>Corporate</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Revenue					
Gold sales	-	-	29,680	-	29,680
Interest and other income	876	31	776	2,434	4,117
	876	31	30,456	2,434	33,797
Expenses except the undernoted	(448)	214	37,079	8,862	45,707
Depletion, depreciation and amortization	171	-	9,463	164	9,798
Impairment writedown	-	662	18,875	-	19,537
Exploration	1,032	-	6,354	-	7,386
Income (loss) before tax	121	(845)	(41,315)	(6,592)	(48,631)
Income tax recovery (expense)	-	-	(585)	90	(495)
Net income (loss)	121	(845)	(41,900)	(6,502)	(49,126)

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**15. Segmented information (continued)**

	2004				Total \$
	Turkey \$	China \$	Brazil \$	Corporate \$	
Revenue					
Gold sales	-	-	33,153	-	33,153
Interest and other income	146	-	1,045	1,571	2,762
	146	-	34,198	1,571	35,915
Expenses except the undernoted	84	-	34,202	7,477	41,763
Depletion, depreciation and amortization	-	-	4,333	98	4,431
Exploration	2,839	-	1,473	-	4,312
Income (loss) before tax	(2,777)	-	(5,810)	(6,004)	(14,591)
Income tax recovery (expense)	(77)	-	826	(100)	649
Net income (loss)	(2,854)	-	(4,984)	(6,104)	(13,942)

**16. Differences between Canadian and United States GAAP**

These consolidated financial statements have been prepared in accordance with Canadian GAAP. The material differences between Canadian GAAP and US GAAP affecting the Company are summarized below:

	2006 \$	2005 \$	2004 \$
<b>Statement of Operations</b>			
Net income (loss) reported under Canadian GAAP	3,300	(49,126)	(13,942)
Add (deduct) items subject to US GAAP			
Interest capitalized under US GAAP (d)	1,586	-	-
Exploration costs (a)	(4,662)	(650)	(573)
Future income tax assets recognized thereon (b)	607	-	-
Net income (loss)	831	(49,776)	(14,515)
Other comprehensive income (loss) for the year	228	284	(470)
Comprehensive income (loss) under US GAAP	1,059	(49,492)	(14,985)
Net basic and diluted loss per share under US GAAP	(0.00)	(0.17)	(0.06)
	<b>2006 \$</b>	<b>2005 \$</b>	<b>2004 \$</b>
<b>Accumulated other comprehensive income (loss) under US GAAP</b>			
Beginning of year	47	(237)	233
Net unrealized gain (loss) on investments	228	284	(470)
End of year	275	47	(237)

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**16. Differences between Canadian and United States GAAP (continued)**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	\$	\$	\$
<b>Assets</b>			
Total assets reported under Canadian GAAP	527,020	320,735	226,259
Less exploration costs not capitalized under US GAAP (a)	(21,186)	(16,524)	(15,874)
Future income tax asset (b)	607	-	-
Unrealized gain (loss) on investments (c)	275	47	(237)
Interest expense capitalized under US GAAP (d)	1,586	-	-
<b>Total assets under US GAAP</b>	<b>508,302</b>	<b>304,258</b>	<b>210,148</b>
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	\$	\$	\$
<b>Shareholders' Equity</b>			
Shareholders' equity reported under Canadian GAAP	395,905	224,927	206,961
Cumulative adjustments to shareholders' equity			
Exploration costs not capitalized under US GAAP (a)	(21,186)	(16,524)	(15,874)
Increase in recovery of future income taxes (b)	607	-	-
Unrealized gain (loss) on investments (c)	275	47	(237)
Interest expense capitalized under US GAAP (d)	1,586	-	-
<b>Shareholders' equity under US GAAP</b>	<b>377,187</b>	<b>208,450</b>	<b>190,850</b>
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	\$	\$	\$
<b>Cash flows (used in) generated from:</b>			
Operating activities under Canadian GAAP	(22,508)	(10,486)	(10,865)
Exploration costs (a)	(4,662)	(650)	(573)
Interest expense capitalized (d)	1,586	-	-
<b>Operating activities under US GAAP</b>	<b>(25,584)</b>	<b>(11,136)</b>	<b>(11,438)</b>
Investing activities under Canadian GAAP	(130,454)	(147,276)	(22,918)
Exploration costs (a)	4,662	650	573
Interest expense capitalized (d)	(1,586)	-	-
<b>Investing activities under US GAAP</b>	<b>(127,378)</b>	<b>(146,626)</b>	<b>(22,345)</b>
<b>Financing activities under Canadian and US GAAP</b>	<b>179,103</b>	<b>56,198</b>	<b>63,708</b>
Net increase (decrease) in cash and cash equivalents for Canadian and US purposes	26,141	(101,564)	29,925
Cash and cash equivalents - beginning of period	33,826	135,390	105,465
<b>Cash and cash equivalents - end of period</b>	<b>59,967</b>	<b>33,826</b>	<b>135,390</b>

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## 16. Differences between Canadian and United States GAAP (continued)

A description of US GAAP that results in material differences from Canadian GAAP is as follows:

### (a) *Exploration costs*

Exploration costs are accounted for in accordance with Canadian GAAP as disclosed in note 3(g). For US GAAP purposes, exploration costs relating to unproven mineral properties are expensed as incurred until completion of a feasibility study, after which exploration and development costs are capitalized.

### (b) *Future income taxes*

Under US GAAP, after expensing exploration costs incurred in Turkey, the Company would recognize an additional \$607 in future income tax assets.

### (c) *Investments*

Under US GAAP, marketable securities are classified as “held to maturity”, “held for trading”, or “available-for-sale” in accordance with FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (“FAS 115”). Certain securities held by the Company would be classified as “available for sale” under FAS 115 and would be recorded at market value, with any unrealized gain or loss recorded in other comprehensive income.

### (d) *Interest expense*

Under Canadian GAAP, where the Company has secured debt financing to finance the cost of specific projects, interest is capitalized on the related construction and development project until the project commences commercial operation or development ceases at which time the interest is charged to operations. Under US GAAP interest is capitalized on an interest avoidance basis. Under this method, regardless of the application of the loan proceeds any interest incurred is capitalized to the cost of any development or construction project to the extent of the lesser of the interest cost incurred or the amount that can be attributed to the cost any capital development or construction costs and any uncapitalized interest is charged to operations.

# Eldorado Gold Corporation

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

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(Expressed in thousands of U.S. dollars, unless otherwise stated)

#### 16. Differences between Canadian and United States GAAP (continued)

(e) *Recent United States accounting pronouncements*

(i) Uncertain tax positions

In June 2006, the FASB issued *Accounting for Uncertain Tax Positions - an Interpretation of FASB Statement No. 109*, "FIN 48" which prescribes a recognition and measurement model for uncertain tax positions taken or expected to be taken in the Company's tax returns. FIN 48 provides guidance on recognition, classification, presentation and disclosure of unrecognized tax benefits. Management is required to adopt this statement effective January 1, 2007 and is currently assessing the impact on the Company's financial statements.

(ii) Fair value measurements

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value and expands fair value disclosures. The standard does not require any new fair value measurements. This standard is effective for fiscal years beginning after November 15, 2007. Management is currently assessing the impact on the Company's financial statements.

(f) *Warrants and other instruments exercisable in a currency other than the functional currency of the entity*

In a recent continuous disclosure review, the SEC determined that for US GAAP purposes it is generally not possible to treat as equity, warrants whose exercise price is different from the functional currency of the entity. The SEC's view is that for US GAAP purposes such warrants are derivative instruments and should be recorded as liabilities and carried at fair value, with changes in fair value recorded in earnings. This interpretation does not apply under Canadian GAAP. A recent meeting of the FASB included a discussion of an analogous issue and the FASB is considering whether companies be allowed to implement a change in accounting for this analogous situation in a future year. The Company intends to apply the FASB guidance when it is known and the effect can be determined.

# Eldorado Gold Corporation

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

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(Expressed in thousands of U.S. dollars, unless otherwise stated)

#### 16. Differences between Canadian and United States GAAP (continued)

(g) *Recent Canadian accounting pronouncements*

(i) Financial instruments - Recognition and measurement, Section 3855

This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether the fair value or cost-based methods are used to measure the amounts. It also specifies how financial instrument gains and losses are to be presented. Management is currently finalizing its evaluation of the impact of this standard on the Company's Canadian GAAP financial statements.

In April 2005, the Canadian Accounting Standards Board issued new accounting standards dealing with the recognition, measurement and disclosure of financial instruments, hedges and comprehensive income, together with related consequential changes. These new standards will affect the Company's Canadian GAAP interim and annual financial statements beginning in the first quarter of 2007. The most significant new standards are as follows:

(ii) Hedges, Section 3865

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. The adoption of this standard is not expected to impact the Company.

(iii) 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 for the Company will include holding gains and losses on investments designated as available for sale.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## Management's Discussion & Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis (MD&A) reviews the business of Eldorado Gold Corporation ("Eldorado", "we" or "the Company") and compares the Company's financial results for 2006 with those of 2005 and 2004. For a comprehensive understanding of Eldorado's financial condition and results of operations, you should read this MD&A together with the consolidated financial statements and accompanying notes. Unless otherwise noted, all monetary amounts are in United States dollars.

### 1. 2006 - Year in Review

Eldorado is a gold exploration, development, mining and production company based in Vancouver, Canada. We own and operate gold mines in Turkey, China and Brazil. Total gold sales for 2006 were 127,552 ounces at a realized average price of \$609 per ounce (2005 - 66,804 ounces, \$444 per ounce; 2004 - 81,913 ounces, \$409 per ounce).

We began commercial production at the Kisladag gold mine ("Kisladag mine" or "Kisladag") in Turkey on July 1, 2006. The Tanjianshan gold mine ("Tanjianshan mine" or "Tanjianshan") in China was opened in November 2006, where commercial production began on February 1, 2007. We continued operations at our São Bento gold mine ("São Bento mine" or "São Bento") in Brazil through 2006 to the scheduled shut down on January 20, 2007.

In 2007, we expect to produce 310,000 to 330,000 ounces of gold from Kisladag and Tanjianshan at an estimated average cash cost of US\$220 to \$230 per ounce. Company operations are strongly viable at gold prices wee below current levels.

#### *Net Income for the Year*

In 2006 Eldorado was profitable. Our consolidated net income for 2006 was \$3.3 million or \$0.01 per share (2005 (net loss) (\$49.1 million), (\$0.17) per share; 2004 - (\$13.9 million), (\$0.05) per share)

Higher gold prices, increased gold production and lower average production costs were the largest factors in the 2006 operating results. Sales from Kisladag totalled 63,352 ounces of gold at an average price of \$619 per ounce while production cash costs averaged \$206 per ounce. Sales from São Bento totalled 64,200 ounces (2005 - 66,804 ounces; 2004 - 81,913 ounces) of gold at an average price of \$598 per ounce (2005 - \$444; 2004 - \$409) while production cash costs averaged \$454 per ounce (2005-\$407, 2004-\$294).

#### *Financial Position*

At December 31, 2006, we held \$60.0 million (2005 - \$33.8 million) in cash and short-term deposits and \$79.6 million in a restricted accounts held against long term debt - \$50.0 million (2005 - \$50.0 million), letters of credit - \$21.3 million (2005 - \$nil) and environmental reclamation obligations of \$8.3 million (2005 - \$nil). We remain hedge free.

On February 7, 2006, we closed a bought deal financing with a syndicate of underwriters. A total of 34,500,000 common shares were issued at CDN\$5.40 per common share for gross proceeds of CDN\$186.3 million (US\$161.5 million) and net proceeds of CDN\$178.9 million (US\$154.4 million). This financing gave us sufficient funds to acquire additional late-stage development gold properties in China; complete the development and continue exploration of our properties in Turkey, China and Brazil; acquire other properties and carry out general corporate activities.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## 2. Production

	Kisladag	2006 São Bento	Total	2005 (São Bento only)	2004
Operating data <sup>1</sup>					
Gold production					
Ounces	70,895	64,758	135,653 <sup>5</sup>	64,298 <sup>5</sup>	82,024 <sup>5</sup>
Cash operating costs (\$/oz) <sup>4</sup>	\$ 206	\$ 454	\$ 324	\$ 407	\$ 294
Total cash costs (\$/oz) <sup>2,4</sup>	\$ 208	\$ 464	\$ 330	\$ 416	\$ 302
Total production costs (\$/oz) <sup>3,4</sup>	\$ 229	\$ 467	\$ 343	\$ 564	\$ 358

<sup>1</sup> Cost figures calculated in accordance with the Gold Institute Standard.

<sup>2</sup> Cash Operating Costs, plus royalties and the cost of off-site administration.

<sup>3</sup> Total Cash Costs, plus foreign exchange gain or loss, depreciation, amortization and reclamation expenses.

<sup>4</sup> Cash operating, total cash and total production costs are non-GAAP measures that do not have any standardized meaning as prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other entities. Please see the section "Non-GAAP Measures" of the MD&A.

<sup>5</sup> Gold sales for 2006 totalled 127,552 ounces (2005 - 66,804 ounces; 2004 - 81,913 ounces).

In 2006, we produced 135,653 ounces of gold, a 111% increase over 2005, and 65% over 2004. The increased production was directly attributable to Kisladag where commercial production commenced in July 2006. Total combined cash operating costs in 2006 were \$324 per ounce, or 20% lower than 2005 and 9% higher than 2004. Compared to 2005, the benefit derived from lower production costs at Kisladag was offset by rising production costs incurred at São Bento. Rising production costs can normally be expected as a mine approaches the end of its life. All mining activities at São Bento ended on January 20, 2007.

In 2007 production is forecast at 310,000 to 330,000 ounces. The loss of the São Bento production is expected to be more than offset by a full year of production from Kisladag and 11 months of Tanjianshan production.

## 3. Operations

### *Kisladag Mine*

Commercial production started on July 1, 2006 at the Kisladag mine. Capital expenditures for the year were \$39.7 million. In the six months ended December 2006 at Kisladag: approximately 5.2 million tonnes of ore were mined at an average grade of 1.18g/t; and, 70,895 ounces of gold were produced at an average total cash cost of \$208 per ounce.

A planned \$14 million mine expansion at Kisladag has an expected completion date late in 2007. The expansion will provide additional crushing and screening capacity, a truck and crusher maintenance shop, additional pond capacity and leach pad expansion. As a result of expansion, we expect to increase mine capacity to 240,000 ounces of gold per year.

A fleet of specialized heavy mining trucks and loaders is on order. In 2008 and future years, mining costs should decline as the new fleet will replace higher cost mining contractors who use much lower capacity standard earth moving equipment and loaders.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## *São Bento Mine*

The final full year of production at São Bento was completed in 2006. During its 20-year life 1.8 million ounces of gold were produced at São Bento.

In 2006, 334,814 tonnes of ore (2005 - 310,703; 2004 - 366,729) were sent to the mill at an average grade of 6.71 grams per tonne (2005 - 7.67 g/pt; 2004 - 8.40 g/pt) with a recovery rate of 87.9% (2005 - 89.3%; 2004 - 89.1%). Production totalled 64,758 ounces of gold (2005- 64,298 ounces; 2004 - 82,024) at an average total cash cost of \$464 per ounce (2005 - \$416; 2004 - \$302). During 2006, production yields declined as grade and recovery decreased, mining and processing costs increased as the ore body approached full depletion.

Following the January, 2007 São Bento shut down, reclamation work began. Reclamation costs are estimated at \$10-million of which we expect to spend \$8.3 million in 2007. The estimated salvage value of the equipment on site at shut down was \$9.0 million.

## 4. Development

### *Efemçukuru*

During 2006, we initiated a drilling program at Efemçukuru designed to convert inferred resources into measured and indicated resources for the purpose of forming the basis of a new mine plan and subsequent reserve calculation and to test the potential of the system at depth. Land acquisition began in 2006, with 40% of the land acquired by December 31, 2006. We contracted Wardrop Engineering to conduct a feasibility study for the Efemçukuru project. The study's completion is expected in the second quarter of 2007. Capitalized expenditures in 2006 totalled \$5.2 million.

### *Tanjianshan*

Construction at Tanjianshan was completed in December of 2006. The first gold pour occurred on December 2, 2006. We began commercial production on February 1, 2007. Forecast production for 2007 is approximately 120,000 to 130,000 ounces of gold at an estimated average cash cost of \$235 to \$245 per ounce. Capital construction expenditure in 2006 was \$48.2 million. Our capitalized development expenditures in China focused on the Tanjianshan project in Qinghai Province. In 2006, we conducted infill drilling at both the Qinglongtan (QLT) and Jinlongou (JLG) deposits.

At JLG, we drilled 44 holes totalling 5,923 meters in a program designed to upgrade the inferred resource into measured and indicated resources. At QLT, 39 holes were drilled for 3,085 meters, both to upgrade inferred resources and to sterilize an area to the west of the pit for waste rock disposal.

### *Vila Nova Iron Ore (50% Joint Venture)*

On the Vila Nova Iron ore project, we drilled 23 holes totalling 2,282 meters in 2006. Cumulative drilling to date now totals 46 holes for 3,802 meters. An extensive metallurgical test work program was completed and a pre-feasibility study incorporating all of the data was prepared. This study shows robust economics for the project with a pre-tax NPV (undiscounted net present value) of \$91.7 million on a measured and indicated resource of 10,418,000 tonnes of ore. In 2007, we will work to finalize permitting for the project. Capitalized expenditures at the Vila Nova Iron Ore project in 2006 totalled \$1.6 million.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## 5. Exploration Review

In 2006, our exploration expenditures rose to \$12.7 million (2005 - \$7.4 million; 2004- \$4.3 million) as we expanded exploration activity in Brazil, Turkey and China. Exploration costs in Brazil, mostly related to the Vila Nova Gold project, totalled \$7.7 million. In Turkey, we incurred exploration expenditures totalling \$4.8 million and \$0.2 million in China.

In 2007, we will continue to explore in Turkey, Brazil and China. The total exploration budget is \$14.2 million. Our exploration strategy is to develop a pipeline of projects that take advantage of our strategic positions in the countries where we operate.

### *Turkey*

In 2006, we conducted exploration on the 50% owned Demir joint venture ("Demir JV") in central Turkey, as well as at the Biga Peninsula in Western Turkey, and in the Pontide Volcanic Belt in Eastern Turkey.

#### Demir JV

The majority of the work on the Demir JV ground was done at the AS project, which hosts both a porphyry copper-gold deposit and a high sulphidation gold target. During 2006, we drilled 14 holes totalling 5,200 meters and completed geologic mapping over the entire license. The rock and soil sampling grid was also extended to delineate the high sulphidation system on the southern portion of the license.

In 2007, we plan to drill the high sulphidation target at the AS project and continue to evaluate other licenses in the Demir JV area.

#### Biga Peninsula

Work on the Biga Peninsula licenses consisted mainly of reconnaissance mapping and sampling in preparation for more detailed follow-up in 2007. We have drilling programs planned at three license areas in 2007. Reconnaissance mapping and sampling on other licenses is planned, time permitting.

#### Pontide Volcanic Belt

In 2006, we were active on three properties in the Pontide Volcanic Belt: Mahmur Tepe, Koyulhisar, and Çatak.

Our primary focus for 2006 was Mahmur Tepe, where we drilled six holes totalling 2,174 meters. Drilling results and a geologic review suggest that this is a Porgera-style, gold-bearing mafic intrusive system. During 2007, we will conduct a small drilling program along with geological and structural reviews in new target areas.

At the Koyulhisar project, we constructed roads and conducted mapping, and sampling in anticipation of a 2006 drill program. Due to the unavailability of a drill rig, this program was postponed until 2007. The Koyulhisar project has several different geologic targets, including both high and low sulphidation systems.

We also carried out geologic mapping and sampling on two vein systems at the Çatak project. In 2007, we will conduct more detailed sampling of the vein systems and other anomalous areas to define drill targets.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## *Brazil*

Our major exploration project in Brazil in 2006 was the Vila Nova Gold project, where we completed 6,516 meters of diamond drilling and 2,366 meters of surface trenching. Our work plan for 2007 will focus on evaluating new licenses acquired during 2006 that surround the central gold showing.

We also conducted soil sampling and auger drilling on the Tartarugalzinho project. This work will continue in 2007 with the objective of defining drill targets by the end of the year.

## *China*

Regional exploration focused on two areas between JLG and QLT and one area north of QLT. This work consisted of geologic mapping, rock chip sampling, induced polarization geophysics and drilling six diamond drill holes.

In 2007, we will continue exploring the regional potential of the approximately 344 square kilometre Tanjianshan claim block, as well as other prospective metallurgic belts in Qinghai Province.

## **6. Review of Financial Results**

### *Net Income (Loss)*

Our consolidated net income for 2006 was \$3.3 million or \$0.01 per share (2005 (net loss) (\$49.1 million) or (\$0.17) per share; 2004 - (\$13.9 million) or (\$0.05) per share).

### *Gold Revenues*

Our gold revenues consist of gold bullion sales at spot. Operating costs include doré refining costs performed by third party refiners in Turkey, Switzerland and Brazil. We sell the refined bullion either to large financial institutions or on the Istanbul Gold Exchange.

	<b>Kisladag</b>	<b>2006 São Bento</b>	<b>Total</b>	<b>2005 (São Bento only)</b>	<b>2006</b>
Gold Sales at spot	\$ 39,232	\$ 38,409	\$ 77,641	\$ 29,680	\$ 33,153
Average selling price per ounce	\$ 619	\$ 598	\$ 609	\$ 444	\$ 409
Ounces sold	63,352	64,200	127,552	66,804	81,913

### *Interest and Other Income*

Interest income earned on cash, short-term money market investments and restricted cash balances held during 2006 was \$6.2 million (2005 - \$3.5 million; 2004 - \$1.8 million). Other income of \$0.8 million in 2006 (\$0.6 million in 2005 and \$1.0 million in 2004) was earned on the sale of Brazilian consumption tax credits.

### *Operating Costs*

The increase in 2006 operating costs include production costs incurred at the Kisladag mine and as previously discussed the rising unit of production costs at São Bento as the mine approached full depletion. While the total operating costs rose in 2006, the average cost per ounce in 2006 was substantially lower. The lower production cost per ounce in Kisladag more than offset the higher average production cost experienced at São Bento.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## *Depletion, Depreciation and Amortization*

The majority of depletion, depreciation and amortization expense ("DD&A") is attributable to the Kisladag operations. Following the 2005 São Bento asset impairment write-down to estimated salvage value, no DD&A was charged to the São Bento operations in 2006. Of the total \$1.8 million in DD&A charged to operations in 2006, \$1.5 million related to 6 months of operations at the Kisladag mine. In prior years, São Bento accounted for DD&A of \$9.5 million (total \$9.8 million) and \$4.3 million (total \$4.4 million) in 2005 and 2004 respectively.

## *General and Administrative*

General and administrative costs are primarily incurred in Vancouver, Canada, where we have our head office. We have continued to add to our administrative staff to support our international operations. General and administrative expense is up by \$4.1 million in 2006, including \$1.4 million attributable to increased staffing levels required to support our expanding operations and increased travel expenses associated with our international operations. General and administrative expense in 2006 also includes \$1.6 million of direct costs incurred in order to meet the *Sarbanes-Oxley Act* reporting requirements and an increase of \$1.1 million in stock-based compensation expense.

## *Exploration Expense*

Exploration expenses and activities are discussed in Section 5, Exploration Review.

## *Foreign Exchange (Gain) Loss*

During 2006, the Canadian dollar strengthened against the US dollar, resulting in a foreign exchange gain on Canadian funds we held. With the CDN\$178.9 million in proceeds from our February, 2006 financing we capitalized on the favourable movements in the Canadian - US dollar exchange rates.

## *Gain on disposal of assets*

During the first quarter of 2005, we valued 2,500,000 units of Fury Explorations Ltd. ("Fury") at a price of CDN\$0.27 per unit resulting in a \$0.6 million write-down. In 2006, we divested of the investment at a price of CDN\$0.70 per unit, for a total gain of \$0.9 million. In 2005, the gain on disposal of property consisted mostly of \$5.7 million from the Turkish sale of our Kaymaz and Kucukdere mine operation licences and related immoveable property, together with all rights and obligations, to Koza Altin Isletmeleri A.S.

## *Write Down of Assets*

In 2006 we took an additional write down of \$2.2 million related to certain Brazilian federal tax credits and certain obsolete supplies inventory. In 2005, we wrote down assets of \$18.9 million relating also to the São Bento mine as we determined that there was a low probability that the ore zone continued at depth. The 2005 write down of assets included \$12.4 million for the São Bento mine, \$4.9 for Brazilian federal tax credits and \$1.6 million for certain inventory items.

## *Income Taxes*

The current income tax provision for 2006 was \$2.1 million (2005 - \$0.2; 2004 (recovery) - (\$1.4 million.)). In 2006 we recognized \$0.7 million in liabilities on inter-company transactions that related to the re-structuring of inter-company debt, and we received an assessment on prior years' income and social contribution tax for \$0.7 million in Brazil. The current provision for income and social contribution tax in Brazil amounted to \$0.6 million. No current income taxes were payable in Turkey because we had unclaimed expense, from prior years that we claimed against the current year's income.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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On the operations statement we recorded a provision for the recovery of future income taxes amounting to \$1.5 million. This recovery is the net amount of \$10.2 million that we expect to recover against income taxes otherwise payable in 2007 and long term future liabilities of \$8.7 million for which we expect to be liable in 2008 or thereafter. The \$10.2 million relates to tax benefits we will realize on claiming expenses incurred in prior years that went unclaimed in those years because we had no taxable income. The \$8.7 million in liabilities relates to \$7.4 million in expenditures on Turkish mining properties for which we have claimed a tax benefit in the current year but for which we will ultimately be liable in the years ending 2008 and thereafter. We also recognized \$1.3 million in taxes that would be payable on unrealized foreign exchange gains accrued in Brazil with respect to inter-company debt denominated in US dollars.

## 7. Liquidity

Cash generated from (used in) operating activities before working capital requirements increased from (\$15.0 million) used in 2005 to \$9.2 million generated in 2006. The improvement is primarily attributable to increased revenues. However after including the \$31.7 million working capital investment requirement, cash flow (used in) operating actives totalled (\$22.5 million) including a \$26.2 million increase in in-process inventory. The remainder of the working capital investment requirement is largely attributable to Turkish value added taxes incurred in the construction of Kisladag that we expect to recover in 2007.

In 2006, we invested \$88.3 million in mineral property, plant and equipment. At São Bento, we had no capital expenditures as the operation was expected to shut down in the first quarter of 2007. At Kisladag, capital expenditures relating to construction completion activities and the initial Phase 2 program expenditures totalled \$39.7 million. Capital expenditures at Tanjianshan relating to construction and equipment purchases totalled \$48.2 million. The remainder of our capital expenditures amounted to \$0.4 million, largely for additions to software and leasehold improvements.

We received net proceeds \$164.1 million in consideration for issuing 38,570,853 common shares during 2006. proceeds from issued shares included a public offering for 34,500,000 shares at a price of C\$5.40 each, for proceeds of \$154.4 million net of \$7.1 million in related share issuance costs.

### *Contractual obligations*

The Company's contractual obligations at December 31, 2006, comprise:

	(000's)					
	2007	2008	2009	2010	2011 and later	Total
	\$	\$	\$	\$	\$	\$
Bank indebtedness	15,367	-	-	-	-	15,367
Long-term debt	400	400	150	50,000	-	50,950
Capital leases	29	36	27	-	-	92
Operating leases and property expenditures	1,572	1,572	1,572	1,572	5,216	11,504
Purchase obligations	59,298	14,761	12,252	11,715	-	98,026
Totals	76,666	16,769	14,001	63,287	5,216	175,939

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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Purchase obligations from 2007 forward relate solely to Kisladag operations including the acquisition of large haul ore trucks and loaders, the estimated provisions commitments under the current external mining contractor agreement and unhedged diesel fuel purchase commitments for 2007 - 2010.

## 8. Capital Resources

### *Cash and working capital*

At December 31, 2006, we had cash and short-term investments of \$60.0 million and working capital amounted to \$102.2 million, compared with \$33.8 million of cash and short-term investments and working capital of \$37.2 million at the beginning of the year. The increase in cash and short-term investments was primarily attributable to our \$154.4 million financing completed on February 7, 2006.

The status of our financing arrangements financing our financing arrangements and obligations are as follows:

### *Bank Indebtedness*

Through Qinghai Dachaidan Mining Limited ("QDML"), our 90% owned-subsiidiary, we secured working capital loans from the China Construction Bank. The loans are secured by way of irrevocable letters of credit drawn on HSBC Bank USA, National Association ("HSBC") not to exceed \$21,250 in total. The letters of credit had an expiry date of February 17, 2007 and were automatically extendable without amendment for a period of one year. The HSBC letters of credit are secured by the current portion of restricted cash, which is held by HSBC as restricted cash in a collateral account

### *Term Revolving Credit Facility*

In April 2005, our wholly owned subsidiary, Tuprag entered into a \$65 million term revolving credit facility (the "Revolving Credit Facility") with HSBC due February 28, 2010. The Revolving Credit Facility is secured by Eldorado cash deposits in restricted accounts equivalent to the HSBC advances to Tuprag. The Revolving Credit Facility bears interest fixed at the prevailing LIBOR on the date of the draw plus 1.25%. The Revolving Credit Facility can be drawn down in minimum tranches of \$1.0 million plus multiples of \$0.25 million. As at December 31, 2006 the Company has drawn \$50.0 million in four tranches at a weighted average interest rate of 6.0%. Each tranche typically has a maturity of approximately 13 months. Over the term of the Revolving Credit Facility, the Company plans to renew each draw down as they become due with final repayment to be made in full on the due date.

At December 31, 2006, \$15 million remained available under the Revolving Credit Facility.

### *Sino Gold loan*

Payment of the second \$0.4 million annual instalment on the Sino Gold loan was made on December 8, 2006.

### *Equity*

At December 31, 2006, the Company had 341.1 million (2005 - 302.6 million; 2004 - 276.3 million) common shares issued and outstanding. There have been no material changes to the number of shares outstanding since December 31, 2006.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## 9. Summary of Quarterly Results and Fourth Quarter Review

	(\$000 except per share amounts)			
	Year ended December 31, 2006			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	\$	\$	\$	\$
Revenue	31,273	30,723	13,265	9,428
Net income (loss)	5,342	5,199	215	(7,456)
Earnings (loss) per share - US\$:				
Basic	\$ 0.01	\$ 0.02	\$ 0.00	(\$ 0.02)
Diluted	\$ 0.01	\$ 0.02	\$ 0.00	-

  

	Year ended December 31, 2005			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	\$	\$	\$	\$
Revenue	9,239	10,522	6,154	7,882
Net income (loss)	(22,599)	(6,507)	(11,063)	(8,957)
Earnings (loss) per share - US\$:				
Basic	(\$ 0.08)	(\$ 0.02)	(\$ 0.04)	(\$ 0.03)
Diluted				-

Higher production and increased sales volumes combined with stronger gold prices and lower unit-of-production operating costs made the final two quarters of 2006 profitable. The improvement is attributable to the start of commercial production at the Kisladag in July 2006. In the 18 months prior to the Kisladag start up, our sole source of gold revenue was from São Bento. With the exception of a marginal profit in Q2, 2006 when the income we reported was largely attributable to interest earned on the proceeds of the Q1 financing, in the previous 6 quarters prior to the Kisladag start up, as a result of the declining production and increasing operating costs that were squeezed by lower sales prices, we reported operating losses. These quarterly losses included a \$18.9 million impairment write-down of the São Bento assets to their estimated salvage value in Q4 of 2005 when we announced the scheduled close for Q1 of 2007.

## 10. Off-Balance Sheet Arrangements

None.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## 11. Critical Accounting Estimates

We use the following critical accounting estimates:

### ***Reserves and Resources***

Mineral reserves and resources are calculated in accordance with National Instrument 43-101, as required by Canadian Securities regulatory authorities. For United States reporting purposes, Industry Guide 7 (under the Securities Exchange Act of 1934, as interpreted by the staff of the Securities and Exchange Commission) applies different standards to classify mineralization as a reserve.

We advise our investors that while the terms "mineral resource", "measured mineral resource," "indicated mineral resource" and "inferred mineral resource" are recognized and required by Canadian regulations, they are not defined terms under standards in the United States and normally are not permitted to be used in reports and registration statements filed with the SEC. As such, information contained in this report concerning descriptions of mineralization and resources required under Canadian standards may not be comparable to similar information made public by US companies in SEC filings. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves.

### ***Recoverable Values***

Where information is available and conditions suggest impairment of long-lived assets, estimated future net cash flows from each property are calculated using estimated future gold prices; proven and probable reserves; value beyond proven and probable reserves; operating, capital and reclamation costs; and estimated proceeds from the disposition of assets on an undiscounted basis.

### ***Gold Price***

We estimate the future price of gold based on historical trends and published forecasted estimates. Our forecast gold price for 2007 is \$600 per ounce.

### ***Operating Costs***

We report our operating costs in accordance with the Gold Institute Standard. Future operating costs include estimates of currency foreign exchange and inflation trends.

### ***Stock-Based Compensation***

We use the Black-Scholes Model to determine the fair value for awards of stock options to employees, officers and directors.

### ***Asset Retirement Obligation***

When assessing the carrying value of the asset retirement obligation, we estimate, among other things, the mine closure date and the credit-adjusted risk-free rate.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## 12. Risks and Uncertainties

### *Gold Price*

Eldorado's profitability is linked to the price of gold because our revenues are derived primarily from gold mining. Gold prices are affected by numerous factors beyond our control, including central bank sales, producer hedging activities, the relative exchange rate of the US dollar with other major currencies, global and regional demand and political and economic conditions. Worldwide gold production levels also affect gold prices, and the price of gold is occasionally subject to rapid short-term changes due to speculative activities.

### *Exploration and Development*

The costs and results of our exploration and development programs affect Eldorado's profitability and value. Since mines have finite lives based on proven reserves, we actively seek to replace and expand our reserves, primarily through acquisitions, exploration and development of our existing operations, and reconnaissance exploration. Exploration for minerals involves many risks and may not result in any new economically viable mining operations or yield new reserves to replace and expand current reserves. Determination of reserves is a process of estimation and, as such, reserve calculations are subject to the assumptions and limitations of the estimation process.

Acquiring title to mineral properties is a detailed and time-consuming process. We take steps, in accordance with industry standards, to verify and secure legal title to mineral properties in which we have or are seeking an interest. Although we take every precaution to ensure that legal title to our properties is properly recorded in the name of Eldorado, there can be no assurance that such title will ultimately be secured on every property. The legal title to our properties depends on the appropriate and consistent application of the laws in the countries in which we operate.

### *Capital and Operations*

The business of gold mining involves many operational risks and hazards. Through high operational standards, an emphasis on hiring and training appropriately skilled personnel and operational improvements, we work to reduce the risks associated with our projects. We also maintain adequate insurance to cover normal business risk.

We also rely on a number of key employees. Our success depends on attracting and retaining qualified personnel in a competitive labour environment.

Further exploration and development of mineral resource properties or acquisitions beyond our current operations may require additional capital. Accordingly, the continuing development of our projects will depend on our ability to obtain financing through joint venture projects, debt financing and equity financing or other means. There is no assurance that we will be successful in obtaining the required financing.

### *Environment*

Our activities are subject to extensive federal, provincial, state and local laws and regulations governing environmental protection and employee health and safety. We must obtain governmental permits and provide associated financial assurance to carry on certain activities. We are also subject to various reclamation-related conditions imposed under federal, state or provincial air, water quality and mine reclamation rules and permits.

While we have budgeted for future capital and operating expenditures to maintain compliance with environmental laws and permits, any future changes to these laws could adversely affect Eldorado's financial condition, liquidity or results of operations.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## *Laws and Regulations*

Eldorado's mining operations and exploration activities are subject to extensive federal, provincial, state and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. These laws and regulations are subject to change, which may restrict our ability to operate. We draw on the expertise and commitment of our management team, advisors, employees and contractors to ensure compliance with current laws, and we foster a climate of open communication and co-operation with regulatory bodies.

## *Legal Proceedings*

The nature of our business subjects us to regulatory investigation, claims, lawsuits and other proceedings in the ordinary course of business. We cannot predict the outcome of these legal proceedings with certainty.

## *Currency Fluctuations*

We operate in numerous countries - including Canada, Turkey, China and Brazil - and we are therefore affected by currency fluctuations in these jurisdictions.

## *Political Risk*

Eldorado conducts operations in a number of countries outside of North America, namely Turkey, China and Brazil. These operations are potentially subject to a number of political, economic and other risks that may affect our future operations and financial position.

## **13. Non-GAAP Measures**

Throughout this document, we have provided measures prepared according to Canadian GAAP, as well as some non-GAAP performance measures. Because the non-GAAP performance measures do not have any standardized meaning prescribed by GAAP, they are unlikely to be comparable to similar measures presented by other companies. We provide these non-GAAP measures as they are used by some investors to evaluate Eldorado's performance. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. We have defined the non-GAAP measures below and reconciled them to reported GAAP measures.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## *Unit Costs*

A reconciliation of cash operating costs calculated in accordance with the Gold Institute Standard to the cost of sales is included below:

Cash operating cost	(\$000's except cash operating cost per ounce)		
	2006	2005	2004
Gold ounces sold	127,552	66,804	81,913
	\$	\$	\$
Operating costs	45,850	35,378	33,109
Royalty expense and production taxes	(824)	(564)	(634)
Effects of inventory adjustments	(771)	(400)	332
FV of stock option grants	(359)	(171)	(650)
Expense of contractual severance costs	(1,377)	(1,801)	-
Expense of certain development costs	(1,129)	(5,260)	(8,075)
Cash operating cost	41,390	27,182	24,082
Cash operating cost per ounce	\$ 324	\$ 407	\$ 294

Cash operating costs are calculated in accordance with the Gold Institute Standard. Cash costs are derived from amounts included in the Statement of Operations.

## 14. Other MD&A Requirements

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## 15. Disclosure of Outstanding Share Data

The following details the share capital structure as at March 9, 2007, the date of this MD&A. These figures may be subject to minor accounting adjustments prior to presentations in future consolidated financial statements.

Equity Type	Weighted average exercise price per share Cdn\$	Total number of common shares
Common shares		341,148,231
Share purchase options	3.82	7,276,463

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## 16. Controls and Procedures

### *Disclosure Controls and Procedures*

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in the rules of the U.S. Securities and Exchange Commission and Canadian Securities Administration, as at December 31, 2006. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to a reasonable assurance standard to ensure that information required to be disclosed in reports filed or submitted by the Company under United States and Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

### *Management's Report on Internal Control over Financial Reporting*

The Company's management is responsible for establishing and maintaining adequate internal control 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.

Management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the effectiveness of the Company's internal control over financial reporting. Based on this assessment, management has concluded that as at December 31, 2006, the Company's internal control over financial reporting was effective.

Management's assessment of the effectiveness of internal control over financial reporting has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, who have expressed their opinion in their report included with the Company's annual consolidated financial statements.

### *Changes in Internal Control over Financial Reporting*

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2006, 2005 and 2004

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## 17. Cautionary Statement on Looking Forward Information

Certain statements and information in this MD&A, including all statements that are not historical facts, contain forward-looking statements and forward-looking information within the meaning of applicable US and Canadian securities laws. Such forward-looking statements or information include, but are not limited to, statements or information with respect to financial disclosure, the future price of gold, estimation of mineral reserves and exploration and development capital requirements, and our goals and strategies. Often, these statements include words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate” or “believes” or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved.

With respect to forward-looking statements and the information included in this MD&A, we have made numerous assumptions including among other things, assumptions about the price of gold, anticipated costs and expenditures and our ability to achieve our goals, even though our management believes that the assumptions made and the expectations represented by such statements or information will prove to be accurate. By their nature, forward-looking statements and information are based on assumptions and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include among other things the following: gold price volatility; discrepancies between actual and estimated production and mineral reserves and resources; the speculative nature of gold exploration; mining operational and development risk; and regulatory risks.

See our annual information form and our quarterly and annual MD&A for additional information on risks, uncertainties and other factors relating to the forward-looking statements and information. Although we have attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking statements or information, there may be other factors that cause actual results, performances, achievements or events not to be anticipated, estimated or intended. Also, many of the factors are beyond our control. Accordingly, readers should not place undue reliance on forward-looking statements or information. We undertake no obligation to reissue or update forward-looking statements or information as a result of new information or events after the date of this MD&A except as may be required by law. All forward-looking statements and information made in this document are qualified by this cautionary statement.

Eldorado's consolidated financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) and are filed with appropriate regulatory authorities in Canada and the United States.