Interview with Paul Wright, CEO of Eldorado Gold

Major Miner 'Divesting' Out of China – CEO Explains Eldorado's Move

Eldorado Gold has aggressively pursued building mines in 'tricky' jurisdictions – in particular China. But right now, Eldorado Gold is looking to restructure its ownership of the Chinese assets. It is planning to partially divest itself of its Chinese assets, placing them into a new company listed in China, and partially owned by new Chinese investors.

Eldorado Gold Corp. is currently the fourth largest holding of the Sprott Gold Miners ETF (NYSE: SGDM). As of December 9, 2014, SGDM had a 5.11% weighting in Eldorado Gold, which is subject to change. For more information and disclosures, please visit www.SprottETFs.com.

What is Eldorado's plan for its Chinese assets?

We are restructuring our ownership of the Chinese assets by publically listing the subsidiary which holds these assets. The subsidiary would own three mines and our Eastern Dragon joint venture. It would be listed in Hong Kong, instead of Toronto. Eldorado would be the majority owner of that new company, and we're looking to have international and mainland Chinese institutional investors come in as well.

The idea is that the new company will do better operating and growing its business as a Chinese entity in China, than as part of a Toronto-listed foreign mining company.

So, why transfer the assets to a Chinese subsidiary?

In the last two or three years there has been less and less interest in China generally from North American investors. That has negatively affected the way that the Chinese assets are viewed in our portfolio by the North American market. The value we get from our Chinese assets is priced at a discount. When we look at other Chinese gold mining companies trading in Shanghai or Hong Kong, it is evident that our assets would be valued higher if they were part of a Chinese company traded in China.

Are there other considerations for the divestiture?

As I mentioned, stock market valuations are one reason. But stepping off from ten years of experience in China, we've seen that having a competent Chinese partner and domestic representation is very beneficial to growing a business in China. Our joint venture project for instance, the East Dragon project, has benefited enormously from having our Chinese partner CDH Investments on board.

So North American investors don't want you to own Chinese mines?

Chinese investors tend to prefer China-based companies listed in Hong Kong or Shanghai. These investors are arguably in a better position to value the assets and understand the risks.

It's that same thing for North American investors. A number of North American and European institutional investors like Eldorado but have an issue with our Chinese assets. They do not want the exposure to China. That's the flip side of the transfer. Investors who do not want exposure to China through Eldorado will be pleased.

Is fear of 'fringe' jurisdictions like China or Turkey justified? Are they more risky than the US and Canada?

Investors in the mining space are still fairly parochial. The view from Wall Street and Bay Street is that when you cross the Atlantic or the Pacific, you've increased your risk. In Europe, for historical reasons, investors are more comfortable with Africa than they are with South America. In Sydney, investors are perfectly comfortable with projects in Southeast Asia.

The market ultimately pays for results. That's what you should focus on. But in the short term, the market gives a discount to projects that are not aligned with the prejudices of investors.

So there's an opportunity to build mines in risky places, if you can pull it off?

I think that's exactly what Eldorado has been about. We were first to operate in Turkey. People thought the country was against gold mining, but we built that mine successfully. It's a matter of proving to the market that we can actually manage the risk. On balance, it's probably these 'fringe' countries where you have the best opportunity to build profitable mines today.

How do you adapt Eldorado to a lower gold price?

Well, we were not strong believers in gold at $1,700 or $1,800. As gold went past these numbers, we stuck with a low-ball price of $1,250 for our projects. When prices went much lower we didn't have mines on our hands that were no longer economic. Most of the pain we did incur happened last year, and our adjustments were far less painful than others'. Our view is that we need to run our business to make money with a gold price within the range of $1,000 to $1,200 per ounce.

Has the mining industry become more efficient now, three years into a bear market?

We're not there yet. The gold price hasn't been low enough yet for there to be a real cleanse. The landscape is still littered with the 'walking dead' among junior miners and management teams. For that reason I'm not convinced that we've seen the bottom or that we're going to see a rapid turnaround in mining stocks.

The bull market was especially long. I've never experienced ten years of 'summertime' in the mining sector before. Usually the bull market trends are a lot shorter. During those years of 'summer' we saw a horrendous waste of capital. A lot of money was spent on poor projects and poor mines. It's going to take a while for all that to wash out.

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The Fund will be concentrated in the gold and silver mining industry. As a result, the Fund will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the gold and silver mining industry. Also, gold and silver mining companies are highly dependent on the price of gold and silver bullion. These prices may fluctuate substantially over short periods of time so the Fund's Share price may be more volatile than other types of investments. Funds that emphasize investments in small/mid cap companies will generally experience greater price volatility. Funds investing in foreign and emerging markets will also generally experience greater price volatility. There are risks involved with investing in ETFs including the loss of money. Diversification does not eliminate the risk of experiencing investment losses. ETFs are considered to have continuous liquidity because they allow for an individual to trade throughout the day. The Sprott Gold Miners ETF is a new product with a limited operating history.

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