



## Carpathian Gold Inc.

Two large Exploration and Development  
Platforms in Romania and Brazil.

TSX: CPN

### Romanian risk turns a corner

Chris Cann in London, 25 May 2009



Rail tracks near an old mine in Romania.

THE NAME Gabriel Resources has become synonymous with Romania's temperamental stance on mining but a change in government and the progress of fellow Romanian explorer European Goldfields could have investors revisiting the gold-silver story. These developments have also buoyed Carpathian Gold, which is just setting out in pursuit of the vast and growing riches within its Rovina gold-copper project.

Gabriel may already have too many wounds to ever be called a success story. The company has been entangled in a long-running battle to overcome legal and social barriers in its bid to start mining the Rosia Montana deposit (7.94 million ounce gold and 28.9Moz silver). Domestic and international groups have fought against the development to protect local homes and the environment, which they argue would be irreparably damaged by the planned cyanide leaching process.

The use of cyanide by Western miners has been a sticking point since an incident nine years ago in which a tailings dam belonging to Australian company Esmerelda Exploration failed, releasing cyanide and metals into the Danube river system in what was described by some as the worst environmental disaster since Chernobyl.

The scepticism is understandable. However, some explorers would argue that some politicians treat mining permits as an opportunity to score political points rather than assessing them on environmental merit. Gabriel would consider Rosia Montana to fit into this category, though with a deposit lying underneath a village and fundamental tailings challenges it was always going to be a candidate for controversy.

Though slightly behind original timelines, EGoldfields is motoring along at its Certej gold-silver development in comparison to Gabriel. The technical feasibility study for a three million tonnes per annum, 160,000oz gold and 820,000oz silver operation was approved by the National Agency for Mineral Resources in September 2008 and public approvals were expected by the end of this quarter. This leaves just the Environmental Impact Statement to be signed off.

Looking at the experiences of its Romanian compatriot, this last permitting hurdle has the potential to have EGoldfields biting its nails. But there are three fundamental differences between Rosia Montana and Certej. First, Certej will use a more environmentally friendly and lower cyanide intensive processing solution (the Albion process); secondly, it has always enjoyed local support; and thirdly, a coalition government was installed in December last year, which has banished the Social Democrats and with them the obstinate Environment Minister.

EGoldfields chief executive David Reading told *HighGrade* that the new government had improved the permitting system and there were now more "technocrats" capable of dealing with the environmental and technical reports submitted as part of the process. He said the government recognised the need for revenue and employment in the current economic climate and expected it therefore to support responsible development.



## Carpathian Gold Inc.

Two large Exploration and Development  
Platforms in Romania and Brazil.

TSX: CPN

Certej has now overtaken Rosia Montana, but with the change in government, Gabriel has been able to reinvigorate the campaign to have its Environmental Impact Assessment review, submitted in 2007, restarted. The campaign is building momentum with local and regional political leaders lobbying the Government to restart the process.

The company also achieved a major milestone in February by winning a claim in a Bucharest court against the Romanian Ministry of Environment over an outstanding dam safety permit, which had been approved by the Ministry's internal agency only for the minister himself to continuously refuse the final signature. The original approval was granted in April 2007.

Meanwhile, Carpathian has only just moved into the feasibility phase for its 10.75 million gold equivalent ounces at Rovina. It is running the numbers on a 40,000t per day operation producing 87,000tpa of concentrate for 16 years. The Toronto-listed company has been keenly watching the developments in Romanian politics as they apply expressly to Gabriel and Egoldfields – it should be encouraged.

Not only will Carpathian present its permitting submissions to fresh sets of eyes within the resources and environmental agencies, but Rovina also plans to use flotation as opposed to cyanide to liberate its metal, which will no doubt please Romania's hyperactive kennel of NGOs. According to a research note published by Canaccord Adams following a site visit to Rovina early this month, the combination of these factors will make the road forward for Carpathian far less treacherous than one would have originally thought. Presumably, it also strengthens the case for any other would-be Romanian resources investors.

"With the permitting problems of Gabriel Resources' Rosia Montana gold project, Romania has been viewed as undesirable by most mining investors," the note said. "Most of the problem, however, may be placed at the feet of the Minister of Environment of a former government and vociferous foreign NGO opposition.

"Election of a new government and an apparently more practical Minister of Environment suggest that the Certej gold-silver project of EGoldfields may see full permitting by the end of 2009. This could give encouragement to Gabriel shareholders and reduce the sovereign risk associated with Carpathian as well."

The bank noted that Romania's need to borrow \$US15 billion to meet its budgetary needs may also have contributed to its new-found pragmatism.

RBC Capital Markets mining analyst Cailey Barker described the turnaround for Gabriel as "massive", saying investors had viewed the company as a "dead story" until recently. He said the lessons learnt from watching Gabriel and EGoldfields could assist the progress of Carpathian and encourage other miners to invest in Romania, though the transition would take time. "Romania has always been a bit tricky and with Gabriel getting it wrong people have asked if it's a country they really want to be in," he told *HighGrade*. "And the answer is, yes, it's an alright country [but] at the end of the day it's still Romania. You can't suddenly turn around and say it's a new government so it's all going to be rosy.

"If EGoldfields comes up with a mine in a couple of years and [the Government] sees revenues then it changes again [because] someone has done it and it's all ok. It's a matter of time really, but I think it will get there."

These are all good noises for Carpathian, which is taking a breather at Rovina for a couple of months before it sets off on another round of drilling aimed at upgrading and expanding the resources. During this time the company will be drilling at its Riacho dos Machados gold development in Brazil.

Carpathian's Mike O'Brien said the three deposits making up Rovina – Rovina, Colnic and Ciresata – had high grade gold cores that would be attacked first. It is envisaged that Rovina and Colnic would be mined with open pits with a processing facility in between. Ore from an underground operation at Ciresata would be conveyed, underground, to that processing facility. The deposits rest along the same geological trend and while Rovina and Colnic are pretty much defined, Ciresata is still very much open. Combined with other promising targets within Carpathian's holding along that same trend, there is the potential for this project to grow into a long-term mid-tier producer.



## Carpathian Gold Inc.

Two large Exploration and Development  
Platforms in Romania and Brazil.

TSX: CPN

"We've gone from surface down to 600m [at Ciresata] and as we go deeper the grades keep going up. For the copper we're looking at – 0.2%, 0.3%, 0.4% – and the gold – 1 grams per tonne, 2gpt, 3gpt," O'Brien said.

The lion's share of a recent \$C5.5 million raising will be devoted to advancing Carpathian's Brazilian asset but Carpathian could use the funds set aside for Rovina to satisfy the requirements for an Exploitation Licence within six-to-nine months. However, given the size of the resource and its potential for growth, O'Brien said further exploration was the priority.

The path to production looks relatively smooth for Carpathian when compared to the tribulations of Gabriel. But with the world economy making financing difficult and governments unpredictable; elections for the European Parliament coming up in June; and issues with corruption and protracted bureaucracy still outstanding, it would be reckless to put too much faith in the status quo.

It would be a worthwhile exercise for the management team at Carpathian – and EGoldfields for that matter – to take a glance across at their less fortunate Romanian neighbour to remind themselves that caution and vigilance are still necessary traits for companies in Romania.