

GOLDEN STAR RESOURCES LTD

Form 10-Q/A

February 26, 2007

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10 Q/A**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 30, 2006**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 1 12284  
GOLDEN STAR RESOURCES LTD.  
(Exact Name of Registrant as Specified in Its Charter)**

**Canada**  
(State or other Jurisdiction of Incorporation or Organization)

**98 0101955**  
(I.R.S. Employer Identification No.)

**10901 West Toller Drive, Suite 300  
Littleton, Colorado**  
(Address of Principal Executive Office)

**80127 6312**  
(Zip Code)

Registrant's telephone number, including area code **(303) 830 9000**  
Securities registered or to be registered pursuant to Section 12 (b) of the Act:

Title of Each Class	Name of each exchange on which registered
<b>Common Shares</b>	<b>American Stock Exchange</b>
Securities registered or to be registered pursuant to Section 12(g) of the Act:	

**Warrants Issued February 2003**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Act") during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act).

(Check one): Large accelerated filer:  Accelerated filer:  Non-accelerated filer:

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Number of Common Shares outstanding as at November 6, 2006: 207,845,758

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Certification of Principal Executive Officer Pursuant to Section 906

Certification of Principal Financial Officer Pursuant to Section 906

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Explanatory Note

This Form 10-Q/A is being filed to amend Golden Star Resources Ltd.'s Quarterly Report on Form 10-Q, for the quarter ended September 30, 2006 in order to reflect the restatement of our financial statements for the quarter ended September 30, 2006 to change, in the US GAAP Reconciliation note, the way in which we have accounted for our warrants to purchase common shares which have an exercise price denominated in Canadian dollars. The restatement arose from management's determination on February 22, 2007 that such warrants denominated in Canadian dollars, which had been treated as equity instruments, should have been treated as derivative instruments under US GAAP. As such the fair value of such warrants is required to be treated as a liability, and we are required to mark to market those warrants on a current basis, with the resulting gains or losses being included in the statement of operations under US GAAP.

Generally, no attempt has been made in this Form 10-Q/A to modify or update other disclosures presented in the original report on Form 10-Q except as otherwise required to reflect the effects of the restatement, including in footnote 24 and Item 4. This Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q or modify or update those disclosures. Information not affected by the restatement is unchanged and reflects the disclosure made at the time of the original filing of the Form 10-Q with the Securities and Exchange Commission on November 6, 2006.

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CONSOLIDATED BALANCE SHEETS****(Stated in thousands of US dollars except shares issued and outstanding)  
(Unaudited)**

	<b>As of September 30, 2006</b>	<b>As of December 31, 2005</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 10,043	\$ 89,709
Accounts receivable	6,094	6,560
Inventories (Note 2)	43,776	23,181
Future tax assets	23	6,248
Fair value of derivatives (Note 12)		1,220
Deposits (Note 3)	10,096	5,185
Prepays and other	1,089	686
<b>Total Current Assets</b>	<b>71,121</b>	<b>132,789</b>
<b>RESTRICTED CASH</b>	<b>1,572</b>	<b>5,442</b>
<b>LONG TERM INVESTMENTS (Note 4)</b>	<b>1,456</b>	<b>8,160</b>
<b>DEFERRED EXPLORATION AND DEVELOPMENT COSTS (Note 6)</b>	<b>165,715</b>	<b>167,532</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 7)</b>	<b>87,400</b>	<b>84,527</b>
<b>MINING PROPERTIES (Note 8)</b>	<b>134,170</b>	<b>118,088</b>
<b>CONSTRUCTION IN PROGRESS (Note 9)</b>	<b>139,774</b>	<b>36,707</b>
<b>DEFERRED STRIPPING (Note 10)</b>		<b>1,548</b>
<b>FUTURE TAX ASSETS</b>	<b>3,695</b>	<b>8,223</b>
<b>OTHER ASSETS</b>	<b>1,351</b>	<b>1,587</b>
<b>Total Assets</b>	<b>\$ 606,254</b>	<b>\$ 564,603</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 31,918	\$ 26,144
Fair value of derivatives (Note 12)	1,016	4,709
Asset retirement obligations (Note 13)	3,661	3,107
Current debt (Note 11)	5,812	6,855
<b>Total Current Liabilities</b>	<b>42,407</b>	<b>40,815</b>
<b>LONG TERM DEBT (Note 11)</b>	<b>66,917</b>	<b>64,298</b>
<b>ASSET RETIREMENT OBLIGATIONS (Note 13)</b>	<b>13,916</b>	<b>8,286</b>
<b>FAIR VALUE OF DERIVATIVES (Note 12)</b>		<b>7,263</b>
<b>FUTURE TAX LIABILITY</b>	<b>42,202</b>	<b>45,072</b>

Total liabilities	165,442	165,734
MINORITY INTERESTS	7,345	6,629
COMMITMENTS AND CONTINGENCIES (Note 14)		
<b>SHAREHOLDERS EQUITY</b>		
SHARE CAPITAL (Note 15)		
First preferred shares, without par value, unlimited shares authorized. No shares issued		
Common shares, without par value, unlimited shares authorized. Shares issued and outstanding: 207,845,758 at September 30, 2006; 205,954,582 at December 31, 2005		
	524,481	522,510
CONTRIBUTED SURPLUS	9,832	6,978
EQUITY COMPONENT OF CONVERTIBLE NOTES	2,857	2,857
DEFICIT	(103,703)	(140,105)
Total Shareholders Equity	433,467	392,240
Total Liabilities and Shareholders Equity	\$ 606,254	\$ 564,603

*The accompanying notes are an integral part of the consolidated financial statements*

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**GOLDEN STAR RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Stated in thousands of US dollars except per share amounts)  
(Unaudited)

	Three months ended		Nine months ended	
	September	September	September	September
	30,	30,	30,	30,
	2006	2005	2006	2005
<b>REVENUE</b>				
Gold sales	\$ 35,996	\$ 23,235	\$ 89,607	\$ 63,329
Royalty income	186	952	4,026	3,071
Interest and other	372	561	1,833	1,322
Total revenues	36,554	24,748	95,466	67,722
<b>PRODUCTION EXPENSES</b>				
Mining operations	22,618	20,060	67,169	52,026
Depreciation, depletion and amortization	5,142	4,639	15,946	10,552
Accretion of asset retirement obligation (Note 13)	190	172	544	540
Total mine operating costs	27,950	24,871	83,659	63,118
<b>OPERATING EXPENSES</b>				
Exploration expense	414	191	1,004	605
General and administrative expense	1,887	1,556	7,040	6,504
Corporate development expense		37		147
Total production and operating expenses	30,251	26,655	91,703	70,374
Operating income/(loss)	6,303	(1,907)	3,763	(2,652)
<b>OTHER EXPENSES, (GAINS) AND LOSSES</b>				
Derivative mark-to-market (gain)/loss (Note 12)	(1,382)	5,486	9,346	7,412
Abandonment and impairment of mineral properties	1,849		1,849	1,083
Gain on sale of partial investment in EURO (Note 5)			(20,940)	
Gain on sale of investment in Moto (Note 4)			(30,294)	
Loss on equity investments		75		185
Interest expense	487	853	1,448	1,705
Foreign exchange (gain)/loss	1,118	(111)	(2,339)	732
Income/(loss) before minority interest	4,231	(8,210)	44,693	(13,769)

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Minority interest	(672)	(136)	(716)	(516)
Net income/(loss) before income tax	3,559	(8,346)	43,977	(14,285)
Provision for future income taxes (Note 18)	(604)	1,689	(7,575)	1,710
Net income/(loss)	<b>\$ 2,955</b>	<b>\$ (6,657)</b>	<b>\$ 36,402</b>	<b>\$ (12,575)</b>
Deficit, beginning of period	(106,658)	(132,492)	(140,105)	(126,574)
Deficit, end of period	<b>\$(103,703)</b>	<b>\$(139,149)</b>	<b>\$(103,703)</b>	<b>\$(139,149)</b>
Net income/(loss) per common share basic (Note 19)	<b>\$ 0.014</b>	<b>\$ (0.047)</b>	<b>\$ 0.176</b>	<b>\$ (0.088)</b>
Net income/(loss) per common share diluted (Note 19)	<b>\$ 0.014</b>	<b>\$ (0.047)</b>	<b>\$ 0.174</b>	<b>\$ (0.088)</b>
Weighted average shares outstanding (millions of shares)	207.3	142.8	207.4	142.5

*The accompanying notes are an integral part of the consolidated financial statements*

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**GOLDEN STAR RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Stated in thousands of US dollars)  
(Unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September</b>	<b>September</b>	<b>September</b>	<b>September</b>
	<b>30,</b>	<b>30,</b>	<b>30,</b>	<b>30,</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>OPERATING ACTIVITIES:</b>				
Net income/(loss)	\$ 2,955	\$ (6,657)	\$ 36,402	\$ (12,575)
 <b>Reconciliation of net income to net cash provided by/(used in) operating activities:</b>				
Depreciation, depletion and amortization	5,163	4,709	15,998	10,623
Amortization of loan acquisition cost	27	30	171	105
Deferred stripping	516	(1,920)	1,548	(1,803)
Loss on equity investment		75		185
Gain on sale of investment in Moto and EURO			(51,234)	
Non-cash employee compensation	522	98	1,583	900
Impairment of deferred exploration projects	1,849		1,849	1,083
Income tax expense/(benefit)	604	(1,689)	7,883	(1,710)
Reclamation expenditures	(434)	(176)	(957)	(468)
Fair value of derivatives	(1,900)	5,485	3,971	7,412
Accretion of convertible debt	177	174	529	348
Accretion of asset retirement obligations	190	172	544	540
Minority interests	672	136	716	516
	10,341	437	19,003	5,156
 <b>Changes in assets and liabilities:</b>				
Accounts receivable	1,169	1,769	(1,441)	(1,119)
Inventories	(7,976)	(4,694)	(20,596)	(10,353)
Deposits	1,832	830	(838)	(127)
Accounts payable and accrued liabilities	2,485	3,839	4,286	5,607
Other	(528)	(410)	(334)	(317)
Net cash provided by/(used in) operating activities	7,323	1,771	80	(1,153)
 <b>INVESTING ACTIVITIES:</b>				
Expenditures on deferred exploration and development	(1,543)	(1,719)	(6,340)	(3,782)
Expenditures on mining properties	(4,164)	(10,455)	(11,926)	(23,918)
Expenditures on property, plant and equipment	(4,587)	(6,279)	(10,837)	(25,372)
Expenditures on mine construction in progress	(32,172)	(13,084)	(101,574)	(19,123)
Cash invested in short term investments			(21,080)	

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Cash provided by short term investments	21,080	22,750	21,080	19,100
Cash provided by restricted cash	3,521		3,870	
Expenditure on purchase of Moto shares			(1,656)	
Proceeds from sale of investment in Moto			38,952	
Proceeds from sale of investment in EURO			3,239	
Change in payable on capital expenditures	(3,342)	9,071	733	9,071
Sale of property				1,000
Deposits	(2,291)	(161)	(4,073)	(2,415)
Other	(396)	879	(760)	(1,627)
Net cash provided by/(used in) investing activities	(23,894)	1,002	(90,372)	(47,066)
<b>FINANCING ACTIVITIES:</b>				
Issuance of share capital, net of issue costs	115	877	3,392	1,177
Debt repayments (Note 11)	(1,361)	(1,087)	(5,050)	(1,972)
Issuance of debt (Note 11)	6,978	3,000	12,431	58,330
Equity portion of convertible notes				2,857
Other		(52)	(149)	(1,153)
Net cash provided by financing activities	5,732	2,738	10,624	59,239
Increase/(decrease) in cash and cash equivalents	(10,839)	5,511	(79,666)	11,020
Cash and cash equivalents, beginning of period	20,882	18,386	89,709	12,877
Cash and cash equivalents end of period	\$ 10,043	\$ 23,897	\$ 10,043	\$ 23,897

(See Note 20 for supplemental cash flow information)

*The accompanying notes are an integral part of the consolidated financial statements*

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**GOLDEN STAR RESOURCES LTD.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(All amounts in tables are in thousands of US dollars unless noted otherwise)  
(Unaudited)**

These consolidated financial statements and the accompanying notes are unaudited and should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our annual report on Form 10 K for the year ended December 31, 2005, on file with Securities and Exchange Commission and with the Canadian securities commissions. Financial information is presented in accordance with accounting principles generally accepted in Canada.

In early 2006, it was determined that hedge accounting had been improperly applied by our subsidiary, EURO Resources S.A. ( EURO ) for their cash settled forward gold price agreements during the first three quarters of 2005. As a result, our Form 10 Qs for the first three quarters of 2005 were amended to apply derivative accounting rather than hedge accounting to EURO s derivatives. In this Form 10 Q, comparative amounts for the third quarter and for the first nine months of 2005 reflect the restatement.

In management s opinion, the unaudited consolidated financial statements for the three and nine months ended September 30, 2006 and September 30, 2005 contained herein reflect all adjustments, consisting solely of normal recurring items, which are necessary for the fair presentation of financial position, results of operations and cash flows on a basis consistent with that of our prior audited consolidated financial statements.

In certain cases prior period amounts have been revised to reflect current period presentation.

**1. Description of Business**

Through our subsidiaries we own a controlling interest in four significant gold properties in southern Ghana in West Africa:

Bogoso/Prestea property, which is comprised of the adjoining Bogoso and Prestea surface mining leases ( Bogoso/Prestea ),

Prestea Underground property ( Prestea Underground ),

Wassa property ( Wassa ), and

Hwini Butre and Benso concessions ( St. Jude Properties ).

In addition to these gold properties we hold various other exploration rights and interests and are actively exploring in a variety of locations in West Africa and South America.

Bogoso/Prestea is owned by our 90% owned subsidiary Golden Star (Bogoso/Prestea) Limited ( GSBPL ) (formerly Bogoso Gold Limited) which was acquired in 1999. Bogoso/Prestea produced and sold approximately 132,000 ounces of gold during 2005.

Through another 90% owned subsidiary, Golden Star (Wassa) Limited ( GSWL ) (formerly Wexford Goldfields Limited), we own the Wassa gold mine located some 35 kilometers east of Bogoso/Prestea. Construction and commissioning of Wassa s new processing plant and open pit mine was completed at the end of March 2005 and the project was placed in service on April 1, 2005. Wassa produced and sold approximately 69,000 ounces of gold in 2005 following its April 2005 in service date.

The Prestea Underground is located on the Prestea property and consists of a currently inactive underground gold mine and associated support facilities. GSBPL owns a 90% operating interest in the

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Prestea Underground. We are currently conducting exploration and engineering studies to determine if the underground mine can be reactivated on a profitable basis.

Through our 100% owned subsidiary, St. Jude Resources Ltd. ( St. Jude ), we own the St. Jude Properties in southwest Ghana. The St. Jude Properties consist of the Hwini Butre and Benso concessions which together cover an area of 201 square kilometers. Both concessions contain undeveloped zones of gold mineralization. The Hwini-Butre and Benso concessions are located approximately 75 and 45 kilometers south of Wassa, respectively based on the proposed haulage route. The mineralized zones have been delineated through the efforts of the prior owner who conducted extensive exploration work from the mid 1990s to 2005.

We hold interests in several gold exploration projects in Ghana and elsewhere in West Africa including Sierra Leone, Burkina Faso, Niger and Cote d'Ivoire. We also hold and manage exploration properties in Suriname and French Guiana in South America. We hold indirect interests in gold exploration properties in Peru and Chile through a 16.5% shareholding investment in Goldmin Consolidated Holdings. Golden Star also own a 43% interest in EURO Resources S.A. ( EURO ), a French publicly traded royalty holding company which owns a royalty interest based on gold production at Cambior Inc.'s Rosebel gold mine in Suriname.

Our corporate headquarters are located in Littleton, Colorado, USA and we also maintain a regional corporate office in Accra, Ghana. Our accounting records are kept in compliance with Canadian GAAP. All of our operations, except for certain exploration projects keep financial records in US dollars.

**2. Inventories**

	<b>As of September 30, 2006</b>	<b>As of December 31, 2005</b>
Stockpiled ore	\$ 17,855	\$ 5,753
In process	3,231	3,106
Materials and supplies	22,690	14,322
<b>Total</b>	<b>\$ 43,776</b>	<b>\$ 23,181</b>

**3. Deposits**

Represents cash advances and payments for equipment and materials purchases by GSWL and GSBPL which are not yet delivered on-site.

**4. Long Term Investments**

We hold a 16.5% interest in Goldmin Consolidated Holdings, a privately held gold exploration company which operates in South America. In the year ended December 31, 2005 we accounted for our investment as an equity investment, but by March 31, 2006 our investment was diluted to less than 20%, and we now account for the investment on the cost basis at \$1.5 million.

At December 31, 2005 we held approximately 11% of the outstanding common shares of Moto Goldmines Limited ( Moto ), a gold exploration and development company publicly traded in Canada, with a focus on gold exploration and development in the Democratic Republic of Congo. In March 2006 we exercised our remaining one million warrants increasing our total ownership to six million common shares, and immediately afterward sold all six million common shares in a bought deal transaction in Canada for Cdn\$7.50 per share. The sale of the six million shares resulted in net proceeds to Golden Star of \$39.0 million (Cdn\$45.0 million) yielding a pre tax capital gain of \$30.3 million.

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EURO's most significant asset is its royalty from the Rosebel mine in Suriname, owned and operated by Cambior Inc. Additionally, EURO holds certain gold exploration and development mineral rights in French Guiana, which are the subject of joint venture arrangements. At March 31, 2006 we owned 53% of EURO's outstanding common shares and as such consolidated EURO's financial results with our own.

During the second quarter of 2006 we sold 362,029 of our EURO shares in open market transactions realizing approximately \$0.7 million of cash. On June 19, 2006 we sold an additional four million EURO shares in a private transaction receiving \$2.5 million of cash. The purchasers of the four million shares have agreed to pay additional consideration to Golden Star if they sell the shares at a gain.

The combined share sales during the second quarter diluted our holding in EURO's common shares to approximately 43%. In response to our reduced ownership position, the equity method of accounting was adopted on June 20, 2006 for our remaining interest in EURO. Under the equity accounting method, our consolidated financial statements no longer include EURO's assets and liabilities which at March 31, 2006 included \$3.2 million of net current assets, \$5.6 million of tax assets, \$7.0 million of bank loans and \$14.9 million of derivative liabilities. The net effect of the change in accounting method resulted in recognition of \$17.7 million of non-cash gains in the second quarter of 2006. The total gain from the change in our EURO ownership position, consisting of \$3.2 million in cash received from sale of shares and \$17.7 million from the change in accounting method, is \$20.9 million.

Under the equity method accounting rules, Golden Star will recognize a share of EURO's future earnings/losses in proportion to Golden Star's ownership position at the end of each period (currently 43%). Golden Star has a zero carrying value for its investment in EURO, and future gains and losses will not be recognized until such time as EURO's future income offsets accumulated deficits. The value of our remaining 21.4 million EURO common shares was \$33.9 million based on EURO's closing share price on September 30, 2006.

**6. Deferred Exploration and Development Costs**

Consolidated property expenditures on our exploration projects for the nine months ended September 30, 2006 were as follows:

	Deferred Exploration & Development Costs as of 12/31/05		Capitalized Exploration Expenditures	Acquisition Costs	Impairments	Transfer to mining properties	Deferred Exploration & Development Costs as of 9/30/06
<b>AFRICAN PROJECTS</b>							
Akropong trend and other Ghana Prestea property	\$	4,947	\$ 80	\$	\$	\$ (4,209)	\$ 818
Ghana		2,074	25			(2,099)	
Hwini Butre and Benso Ghana		135,832	3,194	1,897			140,923
Mano River Sierra Leone		1,285	555		(197)		1,643
Afema Ivory Coast		1,028	494				1,522
Goulagou Burkina Faso		18,247	173	254			18,674
Other Africa		1,750	357	(1,090)			1,017
<b>SOUTH AMERICAN PROJECTS</b>							

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Saramacca	Suriname	731	131				862
Bon Espoir	French						
Guiana		1,382	268		(1,650)		
Other South America		256					256
<b>Total</b>		\$ 167,532	\$ 5,277	\$ 1,061	\$ (1,847)	\$ (6,308)	\$ 165,715

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	As of September 30, 2006			As of December 31, 2005		
	Property, Plant and Equipment at Cost	Accumulated Depreciation	Property, Plant and Equipment Net Book Value	Property, Plant and Equipment at Cost	Accumulated Depreciation	Property, Plant and Equipment, Net Book Value
Bogoso/Prestea	\$ 46,578	\$ 11,821	\$ 34,757	\$ 40,802	\$ 8,240	\$ 32,562
Prestea Underground	3,287		3,287	2,748		2,748
Wassa	55,073	6,204	48,869	50,701	1,985	48,716
EURO Resources				1,456	1,449	7
Corporate & Other	656	169	487	611	117	494
<b>Total</b>	<b>\$ 105,594</b>	<b>\$ 18,194</b>	<b>\$ 87,400</b>	<b>\$ 96,318</b>	<b>\$ 11,791</b>	<b>\$ 84,527</b>

**8. Mining Properties**

	As of September 30, 2006			As of December 31, 2005		
	Mining Properties at Cost	Accumulated Amortization	Mining Properties, Net Book Value	Mining Properties at Cost	Accumulated Amortization	Mining Properties, Net Book Value
Bogoso/Prestea	\$ 53,249	\$ 32,393	\$ 20,856	\$ 46,970	\$ 28,792	\$ 18,178
Prestea Underground	27,543		27,543	21,612		21,612
Bogoso Sulfide	13,065		13,065	13,065		13,065
Mampon	15,631		15,631	15,062		15,062
Wassa	54,760	9,425	45,335	50,810	5,104	45,706
Other	11,740		11,740	4,465		4,465
<b>Total</b>	<b>\$ 175,988</b>	<b>\$ 41,818</b>	<b>\$ 134,170</b>	<b>\$ 151,984</b>	<b>\$ 33,896</b>	<b>\$ 118,088</b>

**9. Mine Construction in Progress**

At September 30, 2006 and at December 31, 2005, mine construction in progress represents costs incurred for the Bogoso Sulfide Expansion Project since the beginning of 2005. Included in the total are costs of development drilling, plant equipment purchases, materials and construction costs, payments to the construction contractors, mining equipment costs, capitalized interest and pre-production stripping costs.

	As of September 30, 2006	As of December 31, 2005
Plant construction cost	\$ 107,983	\$ 34,871
Mining equipment cost	13,667	
Pre-production stripping cost	13,019	
Capitalized Interest	5,105	1,836
<b>Total</b>	<b>\$ 139,774</b>	<b>\$ 36,707</b>

**10. Deferred Stripping**

The amount of stripping costs to be capitalized in each period is calculated by determining the tonnes of waste moved in excess of the life of pit average strip ratio and valuing the excess tonnage of removed waste at the average mining cost per tonne during the period. Costs are recovered in periods when the actual tonnes of waste moved are less than the average life of pit rate, such tonnes being valued at the rolling average cost of the waste tonnage amounts capitalized.



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The capitalized component of waste rock removal costs is shown on our consolidated balance sheets in the line item titled Deferred Stripping. The cost impact is included in the Statements of Operations in the line item titled Mining operations.

During the quarter ended September 30, 2006 all the remaining deferred stripping cost of \$0.5 million was recovered.

**11. Debt**

	As of September 30, 2006	As of December 31, 2005
Current debt:		
Bank loan EURO Resources (Note a)	\$	\$ 2,667
Equipment financing loans (Note b)	5,812	4,188
Total current debt	\$ 5,812	\$ 6,855
Long term debt:		
Bank loan EURO Ressources (Note a)	\$	\$ 5,000
Equipment financing loans (Note b)	18,722	11,632
Convertible notes (Note c)	48,195	47,666
Total long term debt	\$ 66,917	\$ 64,298

(a) Bank debt As a result of the sale of the EURO shares in June 2006 (see Note 5), Golden Star no longer consolidates the financial statements of EURO. Therefore the EURO bank loan is not included within consolidated debt as of September 30, 2006.

(b) Equipment financing credit facility We have established an equipment financing facility between Caterpillar

Financial Services Corporation, GSBPL and GSWL, with Golden Star as the guarantor of all amounts borrowed. The facility provides credit for a mixture of new and used mining equipment. This facility is reviewed annually. Amounts drawn under this facility are repayable over five years for new equipment and over two years for used equipment. The interest rate for each draw down is fixed at the date of the draw down using the Federal Reserve Bank 2 year or 5 year swap rate or LIBOR plus 2.38%. As of September 30, 2006, \$24.5 million was outstanding under this facility. The average interest rate on the outstanding loans is approximately 6.7%. We estimate the fair value of the

equipment  
financing  
facility to be  
approximately  
\$24.0 million at  
September 30,  
2006.

- (c) Convertible notes We sold \$50 million of senior unsecured convertible notes to a private investment fund on April 15, 2005. These notes were issued at par and bear interest at 6.85% with a conversion price of \$4.50 per common share. At the maturity date, April 15, 2009, we have the option, to repay the outstanding notes with i.) cash, ii.) by issuing common shares to the note holders or iii.) a combination of cash and common shares. For any notes repaid in common shares the number of shares will be determined by dividing the loan balance by an amount equal to 95% of the

average price of the 20 trading day period ended five days before the notes are due. Due to the beneficial conversion feature, approximately \$47.1 million of the note balance was initially classified as a liability and \$2.9 million was classified as equity. Periodic accretion will increase the liability to the full \$50 million amount due (after adjustments, if any, for converted notes) by the end of the note term. The periodic accretion is included in interest expense. A total of \$5.1 million of interest on the convertible notes has been capitalized

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as Bogoso sulfide expansion project costs. We estimate the fair value of the convertible notes to be approximately \$39.2 million at September 30, 2006.

- (d) Debt facility In October 2006 we finalized a debt facility of \$15 million with two Ghanaian banks. See Note 25 Subsequent events for further detail of this transaction.

**12. Derivatives**

**EURO** In January 2005, EURO, then a majority owned subsidiary, entered into a series of derivative contracts in conjunction with a \$6.0 million loan agreement. EURO's derivatives are tied to a future stream of gold royalty payments EURO expects to receive from Cambior Inc., which purchased a mining property interest from Golden Star in 2002. Golden Star originally owned the royalty but sold the royalty to EURO in 2004. In September 2005, EURO entered into a second set of derivative contracts related to a further \$3.0 million debt facility.

During 2005, we recorded a realized derivative loss of \$0.5 million for cash settlement of the first four quarterly tranches and we recorded \$9.6 million of unrealized, non cash, mark to market losses as of December 31, 2005. At June 30, 2006 we recorded \$0.8 million payments to EURO's counterparties for expiring positions and an additional \$4.1 million mark to market loss for the period ended June 19, 2006.

As a result of the sale of the EURO shares in June 2006 (see Note 5), Golden Star no longer consolidates the financial statements of EURO. Therefore the EURO derivative contract liability is not included in our consolidated balance sheet as of September 30, 2006.

**Gold Derivatives** To provide gold price protection during the 2005/2006 construction phase of the Bogoso Sulfide Expansion Project, we purchased a series of gold puts. The first purchase occurred in the second quarter of 2005 when we purchased put options on 140,000 ounces of gold at an average floor price of \$409.75, paying approximately \$1.0 million in cash for the options.

We purchased an additional 90,000 put options in the third quarter of 2005 locking in a \$400 per ounce floor for each of the 90,000 ounces. Increases in gold price during the first nine months of 2006 resulted in a nil value for our remaining puts at September 30, 2006. This was \$0.1 million less than the value at December 31, 2005 and approximately \$1.0 million less than the initial purchase cost. We have 75,000 ounces of put options with an average strike price of \$404 per ounce remaining at September 30, 2006.

To acquire the put options in the third quarter of 2005, we sold 90,000 ounces of call options with a strike price of \$525 per ounce. The revenue from the sale of the call options exactly offset the cost of the put options bought in the same quarter. At the beginning of 2006 there were 65,000 call options outstanding. During the second quarter of 2006

we bought back 30,000 ounces of call options for \$2.6 million. The lower number of call options held by the Company at September 30, 2006 resulted in a \$1.2 million decrease in settlement costs of the calls and accordingly we recorded a \$1.2 million mark to market gain on the calls. In addition, call options for 23,000 ounces were exercised during the first nine months of 2006 requiring a \$2.0 million payment to the counterparty. The payment is included in derivative loss in the Statement of Operations. At September 30, 2006 our gold call obligation consists of 12,000 ounces at \$525 per ounce.

**Foreign Currency Forward Positions** To help control the potential adverse impact of fluctuations in foreign currency exchange rates on the cost of equipment and materials we expect to purchase during the 2006 construction phase of the Bogoso Sulfide Expansion Project, we entered into Rand forward contracts. These contracts, established without cost, had a fair value of nil and \$1.0 million at September 30, 2006 and December 31, 2005, respectively.

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The following table summarizes our derivative contracts at September 30, 2006:

<b>At September 30, 2006</b>	<b>2006</b>	<b>2007</b>	<b>Total/ Average</b>
Gold put options			
Ounces (thousands)	37.5	37.5	75
Average price per ounce (\$)	404	404	404
Gold call options			
Ounces (thousands)	6	6	12
Average price per ounce (\$)	525	525	525

The puts, calls and foreign exchange forward contracts are comprised of numerous individual contracts each with a different settlement date.

	<b>September 30, 2006</b>	<b>Fair value of EURO derivative on June 19, 2006</b>	<b>December 31, 2005</b>	<b>Nine months (Expense)/ Gain</b>
<b>Fair Value of Derivatives</b>				
Cash settled forward gold price agreements	\$	\$ (13,707)	\$ (9,560)	\$ (4,147)
Puts			74	(74)
Calls	(1,016)		(2,250)	1,234
Rand forward purchases			1,146	(1,146)
Euro forward purchases			(162)	162
Unrealized loss	\$ (1,016)	\$ (13,707)	\$ (10,752)	\$ (3,971)
Realized losses:				
Cash settled forward gold price agreements				(757)
Calls				(4,618)
Total gains/(losses)				\$ (9,346)

**13. Asset Retirement Obligations**

Our Asset Retirement Obligations ( ARO ) are equal to the present value of all estimated future closure costs associated with reclamation, demolition and stabilization of our Bogoso/Prestea and Wassa mining and ore processing properties. Included in this liability are the costs of mine closure and reclamation, processing plant and infrastructure demolition, tailings pond stabilization and reclamation and environmental monitoring costs. While the majority of these costs will be incurred near the end of the mines' lives, it is expected that certain on going reclamation costs will be incurred prior to mine closure. These costs are recorded against the current ARO provision as incurred.

The changes in the carrying amount of the ARO were as follows:

Balance at December 31, 2005	\$ 11,393
Accretion expense	544
Cost of reclamation work performed	(957)
New AROs incurred during the period	6,597
Balance at September 30, 2006	\$ 17,577

Current portion		\$ 3,661
Long term portion		\$ 13,916



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During the quarter we increased our estimate of the asset retirement obligation at Bogoso/Prestea and Wassa as a result of the greater reclamation liability associated with the Bogoso Sulfide Expansion Project and the mining of the SAK pits at Wassa. The increased liability relates to the reclamation associated with the removal of the plant, the expanded tailings facility and the increased size of the pits and dumps. We also completed a reclamation study for bonding purposes with the Ghana Environmental Protection Agency ( EPA ) and updated our cost estimates based on the results of the study.

**14. Commitments and Contingencies**

Our commitments and contingencies include the following items:

- (e) **Environmental Regulations** The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. As such we cannot predict the full amount of our future expenditure to comply with these laws and regulations. We conduct our operations so as to protect the environment and believe our operations are in compliance with applicable laws and regulations in all material respects.
- (f) **Environmental Bonding in Ghana** In 2005, pursuant to a reclamation bonding agreement between the EPA and GSWL, we bonded \$3.0 million to cover future reclamation obligations at Wassa. To meet the bonding requirements we established a \$2.85 million letter of credit and deposited \$0.15 million of cash with the EPA. In addition, pursuant to a bonding agreement between the EPA and GSBPL we bonded \$9.5 million in early 2006 to cover our future obligations at Bogoso/Prestea. To meet these requirements we deposited \$0.9 million of cash with the EPA with the balance covered by a letter of credit.
- (g) **Cash Restricted for Environmental Rehabilitation Liabilities** In 1999, we were required, according to the acquisition agreement with the sellers of GSBPL, to restrict \$6.0 million of cash to be used for the ongoing and final reclamation and closure costs at Bogoso. Between 1999 and 2001 we withdrew \$2.6 million of the restricted cash to cover our out of pocket cash reclamation costs. In early 2006 GSBPL met the EPA's bonding requirements and as a result the sellers of GSBPL released the remaining \$3.5 million during September 2006.
- (h) **Royalties**
  - (i) **Dunkwa Properties:** As part of the acquisition of the Dunkwa properties in August 2003, we agreed to pay the seller a net smelter return royalty on future gold production from the Mansiso and Asikuma properties. Per the acquisition agreement, there will be no royalty due on the first 200,000 ounces produced from Mampon which is located on the Asikuma property. The amount of the royalty is based on a sliding scale which ranges from 2% of net smelter return at gold prices at or below \$300 per ounce up to 3.5% for gold prices in excess of \$400 per ounce.
  - (ii) **Government of Ghana:** Under the laws of Ghana, a holder of a mining lease is required to pay an annual royalty of not less than 3% and not more than 6% of

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the total revenues earned from the lease area. The royalty is payable on a quarterly basis. We currently pay a 3% annual royalty on gold production from Bogoso/Prestea and Wassa.

- (iii) Benso: Benso is subject to a 1.5% net smelter return royalty and a \$1.00 per ounce gold production royalty. The smelter return royalty may be purchased for \$4.0 million (or \$6.0 million if a feasibility study indicates more than 3.5 million ounces of recoverable gold) and the gold production royalty may be purchased for \$0.5 million.
- (iv) Prestea Underground The Prestea Underground is subject to a 2.5% net profits interest on future income. Ownership of the 2.5% net profit interest is currently held by the bankruptcy trustee overseeing liquidation of Prestea Gold Resources Limited, our former joint venture partner in the Prestea Underground.
- (i) **Afema Project** On March 29, 2005 we entered into an agreement with Societe d Etat pour le Development Minier de la Cote d Ivoire ( SO.DE.MI. ), the Cote d Ivoire state mining and exploration company, to acquire their 90% interest in the Afema gold property in south east Cote d Ivoire. A \$0.1 million initial payment to SO.DE.MI. provided us the right to carry out a six month detailed technical due diligence program. On September 30, 2005 a six month extension to March 29, 2006 was granted by SO.DE.MI. to allow Golden Star to carry out further due diligence work and to analyze the large quantity of data collected during 2005, after which Golden Star has the right to complete the transaction to acquire 100% of SO.DE.MI. s rights in the Afema property for \$1.5 million. On March 14, 2006, we contacted SO.DE.MI. to clarify that (i) Golden Star will be indemnified in respect of the past environmental degradation at Afema, and (ii) that no other claims against the property exist. SO.DE.MI. is still considering its response to the latter question and hence the option remains unexercised pending their decision. In addition to the acquisition payments, we agreed to pay SO.DE.MI. a royalty on any future gold production from the Afema property. The royalty is indexed to the gold price and ranges from 2% of net smelter returns at gold prices below \$300 per ounce to 3.5% of net smelter returns for gold prices exceeding \$525 per ounce. If we proceed with the \$1.5 million payment to acquire full rights to the property, the purchase agreement requires us to spend an additional \$3.5 million on exploration work at Afema, subject to exploration success, over the following three and a half years.
- (j) **Stock based compensation** On September 9, 2006 GSBPL and GSWL entered into an agreement with the Ghana Mine Workers Union whereby GSBPL and GSWL agreed to grant each union employee in employment on August 31, 2006 Golden Star options or at our election, Share Appreciation Rights ( SAR s ). The union employees will receive 100 options (or SAR s) for each year of service up to a maximum of 500 options (or SAR s). While the grant of these options (or SAR s) have been approved they still have not been granted to the union employees as of September 30, 2006.
- (k) We are engaged in routine litigation incidental to our business. No material legal proceedings, involving us or our business are pending, or, to our knowledge, contemplated, by any governmental authority. We are not aware of any material events of non compliance with environmental laws and regulations.

**15. Share Capital**

Changes in share capital during the nine months ended September 30, 2006 were:

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	<b>Shares</b>	<b>Amount</b>
Balance as of December 31, 2005	205,954,582	\$522,510
Common shares issued:		
Option exercises	1,887,176	4,680
Reclassification of warrants to capital surplus		(2,575)
Bonus shares and other	4,000	(134)
Balance as of September 30, 2006	207,845,758	\$524,481

**16. Warrants**

The following warrants were outstanding as of September 30, 2006:

<b>Issued with:</b>	<b>Date issued</b>	<b>Warrants outstanding</b>	<b>Exercise price</b>	<b>Expiration date</b>
Equity offering	February 14, 2003	8,448,334	Cdn\$4.60	February 14, 2007
St. Jude acquisition	December 21, 2005	3,240,000	Cdn\$4.17	November 20, 2008

Total 11,688,334

The 8.4 million warrants expiring February 14, 2007 are traded on the Toronto Stock Exchange under the symbol GSC.WT.A. No warrants were exercised during the nine months ended September 30, 2005 and 2006.

**17. Stock Based Compensation**

**Stock Options** We have one stock option plan, the Second Amended and Restated 1997 Stock Option Plan (the Plan) and options are granted under this plan from time to time at the discretion of the Compensation Committee. Options granted are non assignable and are exercisable for a period of ten years or such other period as stipulated in a stock option agreement between Golden Star and the optionee. Under the GSR Plan, we may grant options to employees, consultants and directors of the Company or its subsidiaries for up to 15,000,000 shares of common stock. Under the plan we reserved an aggregate of 15,000,000 shares of common stock for issuance pursuant to the exercise of options of which 11,456,351 is available at September 30, 2006. Options take the form of non qualified stock options, and the exercise price of each option is not less than the market price of our stock on the date of grant. Options typically vest over periods ranging from immediately to four years from the date of grant. Vesting periods are determined at the discretion of the Compensation Committee.

In addition to options issued under the Plan, 2,533,176 options were issued to various employees of St. Jude in exchange for St. Jude options of which 864,000 remain unexercised as of September 30, 2006. All of the remaining unexercised options held by St. Jude employees are vested. All figures shown below include the options issued to St. Jude employees.

Amounts recognized in the statements of operations with respect to the Plan are as follows:

	<b>Nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Total cost during the period	\$ 1,568	\$ 900

We granted 850,650 and 514,000 options during the nine months ended September 30, 2006 and September 30, 2005, respectively. The Company recognized \$1.6 million and \$0.9 million of non cash compensation expense in the nine months ended September 30, 2006 and 2005, respectively. Golden Star does not receive a tax deduction for the issuance of options. As a result we did not recognize any income tax benefit related to the stock compensation expense during the nine months ended September 30, 2006 and 2005.

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The fair value of options granted during the first nine months of 2006 and 2005 were estimated at the grant dates using the Black Scholes option pricing model based on the assumptions noted in the following table:

	<b>Nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Expected volatility	63.7% to 103.4%	34.9%
Risk free interest rate	4.00% to 4.09%	3.15% to 3.52%
Expected lives	4 to 7 years	3.5 to 5 years
Dividend yield	0%	0%

In 2006 expected volatilities are based on the historical volatility of Golden Star's shares. Golden Star uses historical data to estimate share option exercise and employee departure behavior used in the Black Scholes model; groups of employees that have dissimilar historical behavior are considered separately for valuation purposes. The expected term of the options granted represents the period of time that the option granted are expected to be outstanding; the range given above results from certain groups of employees exhibiting different post vesting behaviors. The risk free rate for periods within the contractual term of the option is based on the Canadian Chartered Bank Administered Interest rates in effect at the time of the grant.

A summary of option activity under the Plan as of September 30, 2006 and changes during the nine months then ended is presented below:

	<b>Options</b>	<b>Weighted Average Exercise price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate intrinsic value</b>
	<b>(000 )</b>	<b>(Cdn\$)</b>	<b>(Years)</b>	<b>(\$000)</b>
Outstanding as of December 31, 2005	7,390	2.75	5.2	\$ 9,554
Granted	851	3.88	9.4	
Exercised	(1,887)	1.97		2,209
Forfeited	(136)	7.07		
Outstanding as of September 30, 2006	6,218	3.02	5.6	7,073
Exercisable at September 30, 2006	3,954	1.78	4.0	\$ 7,073

The weighted average grant date fair value of share options granted during the nine months ended September 30, 2006 and September 30, 2005 was Cdn\$2.70 and Cdn\$1.67, respectively. The intrinsic value of options exercised during the nine months ended September 30, 2006 and 2005 was \$2.2 million and \$0.2 million, respectively.

A summary of the status of non vested options at September 30, 2006 and changes during the nine months ended September 30, 2006, is presented below:

	<b>Number of options ( 000)</b>	<b>Weighted average grant date fair value</b>
		<b>(Cdn\$)</b>
Nonvested at January 1, 2006	155	2.03
Granted	851	2.74

Vested		(466)	2.61
Forfeited		(71)	2.09
Nonvested at September 30, 2006		469	2.74

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As of September 30, 2006 there was a total unrecognized compensation cost of Cdn\$1.2 million related to non-vested share-based compensation granted under the Plan. That cost is expected to be recognized over a weighted average period of 2.3 years. The total fair values of shares vested during the nine months ended September 30, 2006 and 2005 were Cdn\$1.2 million and Cdn\$0.4 million, respectively.

**Stock Bonus Plan** In December 1992, we established an Employees Stock Bonus Plan (the Bonus Plan) for any full-time or part-time employee (whether or not a director) of the Company or any of our subsidiaries who has rendered meritorious services which contributed to the success of the Company or any of its subsidiaries. The Bonus Plan provides that a specifically designated committee of the Board of Directors may grant bonus common shares on terms that it might determine, within the limitations of the Bonus Plan and subject to the rules of applicable regulatory authorities. The Bonus Plan, as amended, provides for the issuance of 900,000 common shares of bonus stock of which 495,162 common shares had been issued as of September 30, 2006.

During the nine months ended September 30, 2006 and 2005 we issued 4,000 and 45,342 common shares, respectively, to employees under the Bonus Plan.

**18. Income Taxes**

Income tax (expense)/benefit attributable to net income before income taxes consists of:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Current				
Canada	\$	\$	\$ (4,926)	\$
Foreign				
Future				
Canada	61		3,179	
Foreign	(665)	1,689	(5,828)	1,710
Total	\$ (604)	\$ 1,689	\$ (7,575)	\$ 1,710

The current tax expense recorded for the nine months ended September 30, 2006 relates to the gain on sale of the Moto shares. The Canadian future tax benefit recorded relates primarily to exploration expenditures incurred by St. Jude. The foreign future tax expense recorded for the nine months ended September 30, 2006 relates primarily to the sale of EURO (see Note 5) and the decrease in the Ghanaian tax rate, which is offset by derivative losses incurred. Golden Star records a valuation allowance against any portion of its remaining future income tax assets that it believes will, more likely than not, fail to be realized.

**19. Earnings per Common Share**

The following table provides a reconciliation between basic and diluted earnings per common share:

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	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net income/(loss)	\$ 2,955	\$ (6,657)	\$ 36,402	\$ (12,575)
Weighted average number of common shares (millions)	207.3	142.8	207.4	142.5
Dilutive securities:				
Options	1.9	1.8	2.0	1.9
Warrants				
Weighted average number of diluted shares	209.2	144.6	209.4	144.4
Basic earnings/(loss) per share	\$ 0.014	\$ (0.047)	\$ 0.176	\$ (0.088)
Diluted earnings/(loss) per share	\$ 0.014	\$ (0.047)	\$ 0.174	\$ (0.088)

**20. Supplemental Cash Flow Information**

No cash income taxes were paid during the nine months ended September 30, 2006 and 2005. Cash paid for interest was \$2.9 million and \$1.1 million for September 30, 2006 and 2005, respectively. A total of \$53,000 and nil of depreciation was included in general and administrative costs, or was capitalized into projects, for the quarters ended September 30, 2006 and 2005, respectively.

	<b>Nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Supplemental disclosure of non-cash transactions</b>		
De-consolidation of EURO (see Note 5):		
- Accounts receivable	\$ 2,341	
- Capitalized loan fees	91	
- Accounts Payable	754	
- Derivative liability	6,333	

**21. Operations by Segment and Geographic Area**

The following segment and geographic data includes revenues based on product shipment origin and long lived assets based on physical location. The corporate entity is incorporated in Canada.

<b>As of and for the three months ended September 30,</b>	<b>Africa Ghana</b>			<b>South</b>		<b>Total</b>
	<b>Bogoso/ Prestea</b>	<b>Wassa</b>	<b>Other</b>	<b>America</b>	<b>Corporate</b>	
2006						
Revenues	\$ 21,544	\$ 14,529	\$ 2	\$ 170	\$ 309	\$ 36,554
Net income/(loss)	6,932	321	(204)	(164)	(3,930)	2,955
Total assets	291,381	107,028	196,184	7,849	3,812	606,254
2005						
Revenues	\$ 12,856	\$ 10,500	\$	\$ 1,058	\$ 334	\$ 24,748
Net income/(loss)	1,667	(3,660)	(1,331)	(2,654)	(679)	(6,657)
Total assets	131,575	98,512	45,531	7,684	42,354	325,656

<b>As of and for the</b>	<b>Africa</b>	<b>Ghana</b>	<b>South</b>
	<b>Bogoso/</b>		

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<b>nine months ended September 30,</b> 2006	<b>Prestea</b>	<b>Wassa</b>	<b>Other</b>	<b>America</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 48,001	\$ 41,808	\$ 18	\$ 4,186	\$ 1,453	\$ 95,466
Net income/(loss)	7,789	(1,930)	2,820	(3,936)	31,659	36,402
Total assets	291,381	107,028	196,184	7,849	3,812	606,254

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As of and for the nine months ended September 30, 2005	Africa		Ghana		South America	Corporate	Total
	Bogoso/ Prestea	Wassa	Other				
Revenues	\$ 43,806	\$19,690	\$	\$ 3,177	\$ 1,049	\$ 67,722	
Net income/(loss)	5,278	(6,336)	(1,331)	(2,263)	(7,923)	(12,575)	
Total assets	131,575	98,512	45,531	7,684	42,354	325,656	

**22. Related Parties**

We obtained legal services from a legal firm to which our Chairman is counsel. Total value of all services purchased from this law firm during the first nine months was \$0.6 million. Our Chairman did not personally perform any legal services for us during the period nor did he benefit directly or indirectly from payments for the services performed by the firm.

During the first quarter of 2006, a corporation controlled by Michael A. Terrell, a director of Golden Star, provided management services to St. Jude for which it was paid Cdn\$0.13 million. Mr. Terrell became a director of Golden Star following our acquisition of St. Jude in December 2005. Mr. Terrell's company ceased providing services to St. Jude at March 31, 2006.

**23. Financial Instruments**

**Fair Value** Our financial instruments are comprised of cash, short term investments, accounts receivable, restricted cash, accounts payable, accrued liabilities, accrued wages, payroll taxes, derivatives and debt. The fair value of cash and short term investments, derivatives, accounts receivable, accounts payable, accrued liabilities and accrued wages, payroll taxes and current debt equals their carrying value due to the short term nature of these items. The fair value of restricted cash is equal to the carrying value as the cash is invested in short term, high quality instruments.

**24. Generally Accepted Accounting Principles in the United States**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which differ from US GAAP. The effect of applying US GAAP to our financial statements is shown below.

**Table of Contents****(a) Consolidated Balance Sheets in US GAAP**

	<b>As of September 30, 2006</b>	<b>As of December 31, 2005</b>
	<b>(Restated-Note d13)</b>	<b>(Restated-Note d13)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,043	\$ 89,709
Accounts receivable	6,094	6,560
Inventories	43,776	23,181
Future tax assets	23	6,248
Fair value of derivatives		1,220
Deposits	10,096	5,185
Other current assets	1,089	686
Total current assets	71,121	132,789
Restricted cash	1,572	3,865
Long term investments (Notes d1 and d2)		15,182
Deferred exploration and development costs (Notes d3 and d4)		
Property, plant and equipment (Note d5)	86,686	83,813
Mine construction in progress	139,774	36,706
Mining properties (Notes d3, d4 and d5)	244,285	237,153
Deferred stripping (Note d6)		1,548
Future tax asset (Note d10)	3,695	8,223
Other assets	1,351	3,164
Total assets	\$ 548,484	\$ 522,443
<b>LIABILITIES</b>		
Current liabilities	\$ 42,407	\$ 40,815
Long term debt (Note d8)	68,721	66,632
Asset retirement obligations	13,916	8,286
Future tax liability	42,202	45,072
Fair value of long term derivatives (Note d7)	6,131	15,842
Total liabilities	173,377	176,647
Minority interest	2,824	1,964
Commitments and contingencies		
<b>SHAREHOLDERS EQUITY</b>		
Share capital (Note d9)	525,668	523,696
Contributed surplus (Note d10)	7,272	4,419

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Accumulated comprehensive income and other (Note d2)	1,316	9,495
Deficit	(161,973)	(193,778)
Total shareholders' equity	372,283	343,832
Total liabilities and shareholders' equity	\$ 548,484	\$ 522,443

**Table of Contents****(b) Consolidated Statements of Operations under US GAAP**

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(Restated-Note d11)</b>	<b>(Restated-Note d11)</b>	<b>(Restated-Note d11)</b>	<b>(Restated-Note d13)</b>
Net income under Cdn GAAP	\$2,955	\$ (6,657)	\$36,402	\$ (12,575)
Deferred exploration expenditures expensed per US GAAP (Note d3)	(475)	(5,920)	(8,308)	(9,495)
Impact of start-up accounting (Note d5)				(4,718)
Depreciation and amortization differences				
Wassa (Note d5)	(314)	182	1,423	(825)
Write-off of deferred exploration properties (Note d3)				1,083
Derivative gain/(loss) on non-US\$ warrants (Note d11)	2,572	(2,314)	2,448	2,169

**(c) Consolidated Statements of Cash Flows under US GAAP**

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Cash provided by (used in):				
Operating activities	\$ 1,269	\$ 4,280	\$(12,138)	\$ (7,004)
Investing activities	(17,840)	(1,507)	(78,152)	(41,215)
Financing activities	5,732	2,738	10,624	59,239
Increase/(Decrease) in cash and cash equivalents	(10,839)	5,511	(79,666)	11,020
Cash and cash equivalent beginning of period	20,882	18,386	89,709	12,877
Cash and cash equivalents end of period	\$ 10,043	\$23,897	\$ 10,043	\$ 23,897

**(d) Notes:**

- (1) Minority investments in private entities whose major business is mineral exploration are deemed for US GAAP to be equivalent to exploration spending and are expensed as incurred.
- (2) Under US GAAP, investments in marketable equity securities are marked to fair value at the end of each period with gains and losses recognized in Other comprehensive income. Under Cdn GAAP gains and losses on marketable equity securities are noted in the foot notes and recognized in the statement of operations only when the investment is sold.
- (3) Under US GAAP, exploration, acquisition (except for purchase costs) and general and administrative costs related to exploration projects are charged to expense as incurred. Under Cdn GAAP, exploration, acquisition and direct general and administrative costs related to exploration projects are capitalized. In each subsequent period, the exploration, engineering, financial and market information for each exploration project is reviewed by management to determine if any of the capitalized costs are impaired. If found impaired, the asset's cost basis is reduced in accordance with Cdn GAAP provisions.



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- (4) Under US GAAP, the initial purchase cost of mining properties is capitalized. Pre-acquisition costs and subsequent development costs incurred, until such time as a final feasibility study is completed, are expensed in the period incurred. Under Cdn GAAP, the purchase costs of new mining properties as well as all development costs incurred after acquisition are capitalized and subsequently reviewed each period for impairment. If found impaired, the asset's cost basis is reduced in accordance with Cdn GAAP provisions.
- (5) Under US GAAP new production facilities are placed in service once the facility has been constructed and fully tested to the point where it can be shown that it is capable of producing its designed product as intended. Under Cdn GAAP new production facilities are placed in service when output reaches a significant portion of the facility's design capacity.
- (6) In March 2005, the Emerging Issues Task Force of the Financial Accounting Standards Board issued statement 04-6 Accounting for Stripping Costs Incurred During Production in the Mining Industry ( EITF 04-6 ) which precludes deferral of stripping costs during a mine's production phase. EITF 04-6 requires that deferred stripping costs be considered a variable production cost. The new pronouncement is effective January 1, 2006 and transition provisions allow any remaining balances in deferred stripping asset accounts to be closed directly to retained earnings on January 1, 2006. In Canada the Emerging Issues Committee ( EIC ) has issued EIC 160 Stripping Costs Incurred in the Production Phase of the Mining Operation which concludes that deferred stripping costs during the production phase of a mine's life should generally be considered a variable production cost and included in the cost of inventory unless it can be shown that the stripping costs represent a betterment to the mineral property.
- (7) Under US GAAP the fair value of warrants denominated in currencies other than US\$ is treated as a derivative liability. Under Cdn GAAP the fair value of all warrants are treated as a component of shareholders' equity.
- (8) For US GAAP purposes, 100% of the \$50.0 million of convertible notes issued in the second quarter of 2005 was classified as a liability. Under Cdn GAAP, the fair value of the conversion feature is classified as equity and the balance is classified as a liability. Under Cdn GAAP, the liability portion is accreted each period in amounts which will increase the liability to its full amount as of the maturity date and the accretion is recorded as interest expense.
- (9) Numerous transactions since the Company's organization in 1992 have contributed to the difference in share capital versus the Cdn GAAP balance, including: (i) under US GAAP, compensation expense was recorded for the difference between quoted market prices and the strike price of options granted to employees and directors under stock option plans while under Cdn GAAP, recognition of compensation expense was not required; (ii) in May 1992 our accumulated deficit was eliminated through an amalgamation (defined as a quasi-reorganization under US GAAP) under US GAAP the cumulative deficit was greater than the deficit under Cdn GAAP due to the past write-offs of certain deferred exploration costs; and (iii) gains recognized in Cdn GAAP upon issuances of subsidiaries' shares are not allowed under US GAAP; (iv) when warrants denominated in currencies other than US\$ are exercised the difference between the fair value and the strike price of the warrant is recorded as share capital for US GAAP purposes, but under Cdn GAAP only the strike price is recorded as share capital on exercise.
- (10) Under Cdn GAAP the issuance-date fair value of all warrants issued and outstanding are recorded as contributed surplus. Under US GAAP contributed surplus excludes the fair value of warrants denominated in currencies other than US\$. The fair value of warrants denominated in currencies other than US\$ is recorded in derivative liability.
- (11)

Under US GAAP the change in fair value of warrants denominated in currencies other than the functional currency of the company is recognized in the Statement of Operations. Under Cdn GAAP warrants are not marked to fair value.

- (12) In December 2004, the Financial Accounting Standards Board ( FASB ) finalized SFAS No. 123R Share-Based Payment, amending SFAS No. 123 ( SFAS 123R ), effective beginning our first quarter of fiscal 2006. SFAS 123R requires the Company to expense stock options based on grant date fair value in its financial statements. Further, the SFAS 123R requires additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. In March 2005, the U.S. Securities and Exchange Commission (the SEC ) issued Staff Accounting Bulletin ( SAB ) No. 107, which expresses views of the SEC staff regarding the interaction between SFAS 123R and certain SEC rules and regulations, and provides the

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staff's views regarding the valuation of share-based payment arrangements for public companies. We adopted the optional provisions of SFAS No. 123 in 2003 and have expensed share based payments since that time. We have expanded share-based payment disclosures as required by SFAS 123R at March 31, 2006.

- (13) The US GAAP reconciliation has been restated to take effect of the difference between Canadian and US GAAP described in notes d7 and d11 above.

Statement of Operations	For the three months ended				For the nine months ended			
	September 30, 2006		September 30, 2005		September 30, 2006		September 30, 2005	
	Originally stated	Restated	Originally stated	Restated	Originally stated	Restated	Originally stated	Restated
Derivative loss USD								
Warrants		2,572		(2,314)		2,448		2,169
Net Income/(Loss) under US GAAP before minority interest	1,642	4,214	(12,245)	(14,559)	29,498	31,946	(26,160)	(23,991)
Net Income/(Loss) under US GAAP	1,560	4,132	(12,174)	(14,488)	29,354	31,802	(26,033)	(23,864)
Comprehensive income/(loss)	1,560	4,132	(8,236)	(10,550)	29,354	31,802	(21,202)	(19,033)
Basic net income/(loss) per share under US GAAP before cumulative effect of change in accounting method	\$ 0.008	\$ 0.020	\$ (0.085)	\$ (0.101)	\$ 0.142	\$ 0.153	\$ (0.183)	\$ (0.167)
Diluted net income/(loss) per share under US GAAP before cumulative effect of change in accounting method	\$ 0.009	\$ 0.020	\$ (0.085)	\$ (0.101)	\$ 0.142	\$ 0.152	\$ (0.183)	\$ (0.167)

Balance Sheet	September 30, 2006		December 31, 2005	
	Originally stated	Restated	Originally stated	Restated
Fair value of long term derivatives		6,131	7,263	15,842
Total liabilities	167,246	173,377	168,068	176,647
Share Capital	521,512	525,668	519,540	523,696
Contributed Surplus	11,147	7,272	8,294	4,419
Deficit	(154,245)	(161,973)	(183,602)	(193,778)
Total shareholders' equity	378,414	372,283	352,411	343,832

- (14) While tax accounting rules are essentially the same under both US and Cdn GAAP, tax account differences can arise from differing treatment of various assets and liabilities. For example, most exploration expenditures and certain mine developments cost are capitalized under Cdn GAAP and expensed under US GAAP, as explained in notes 3 and 4 above. An analysis of these differences indicates that there are larger potential tax benefits under US GAAP than under Cdn GAAP. However due to the uncertainty of utilization of these tax assets, valuation allowances have been applied to offset them. As a result there are currently no differences in tax assets recognized on the US and Cdn balance sheets but future events, particularly those



regarding expected future earnings from the new sulfide processing operation, could result in differing tax asset balances in the future.

**25. Subsequent Event**

On October 11<sup>th</sup>, 2006, Golden Star entered into an agreement for a \$15 million debt facility to be provided by Ecobank Ghana Limited and Cal Bank Limited. Both banks are active in Ghana. The funds are available immediately for a term of 27 months at an interest rate of US Prime (currently 8.25%) plus one percentage point. Loan fees total one percent of the facility amount. The amount drawn under the facility is repayable in 24 equal installments starting three months after receipt of the funds. The debt is secured by the non-mobile assets of the Bogoso/Prestea mine and proceeds are to be used as partial funding for the Bogoso Sulfide Expansion Project. There are no hedging requirements or equity-type incentives required under the facility. As of November 6, 2006 \$7.5 million has been drawn under this facility.

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**ITEM 4. CONTROLS AND PROCEDURES**

It was determined that as of September 30, 2006, management did not maintain effective controls over the presentation and documentation of certain derivatives. Specifically, Golden Star did not properly account in its US GAAP footnote (note 24) for warrants denominated in currencies other than US dollars. Warrants denominated in currencies other than US dollars were treated as a component of shareholders' equity. Proper accounting would have treated them as a derivative instrument, which would have been marked to fair value at the end of each period. This control deficiency resulted in the requirement for the restatement of our US GAAP footnote financial statements for the quarters ended March 31, June 30 and September 30, 2006. Because of the existence of the deficiency in question at September 30, 2006 management concluded that the Golden Star's internal control over financial reporting was ineffective as of that date.

**(a) Disclosure Controls and Procedures**

As of September 30, 2006, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Golden Star's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on the evaluation and as a result of the material weakness discussed above, management has concluded that as of September 30, 2006 our disclosure controls and procedures were not effective.

**(b) Changes in Internal Control Over Financial Reporting**

Changes to our internal control over financial reporting to address the material weakness described above were implemented subsequent to the quarter ended September 30, 2006. There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

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**ITEM 6. EXHIBITS**

- 10.1 Severance and Release Agreement dated October 13, 2006 between Allan J. Marter and Golden Star (previously filed)
- 10.2 Employment Agreement dated June 17, 2006 between Colin Belshaw and Golden Star (previously filed)
- 10.3 Medium Term Loan Agreement dated October 11, 2006 between Ecobank Ghana Limited, Cal Bank Ghana Limited and Golden Star (previously filed)
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
- 32.1 Certificate of Principal Executive Officer pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes Oxley Act of 2002)
- 32.2 Certificate of Principal Financial Officer pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes Oxley Act of 2002)

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10 Q/A to be signed on its behalf by the undersigned, thereunto duly authorized.

GOLDEN STAR RESOURCES LTD.  
Registrant

By: /s/ Peter J. Bradford  
Peter J. Bradford  
President and Chief Executive Officer  
Date: February 26, 2007

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