

GOLDEN STAR RESOURCES LTD

Form 10-K/A

July 23, 2007

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**  
**FORM 10-K/A**  
**Amendment No. 1**

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

**For the Fiscal Year ended December 31, 2006**

**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

**Common Shares**

**American Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately \$605 million as of June 30, 2006, based on the closing price of the shares on the American Stock Exchange as of that date of \$2.96 per share.

Number of Common Shares outstanding as at March 12, 2007: 232,104,141



**EXPLANATORY NOTE**

This Amendment No. 1 to the Annual Report on Form 10-K of Golden Star Resources Ltd.. (the Company ) amends the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006, originally filed with the Securities and Exchange Commission on March 14, 2007 (the Original Filing ). The Company is filing this Amendment No. 1 solely for the purpose of filing a corrected Independent Auditors Report and re-filing the consent of PricewaterhouseCoopers LLP, attached as Exhibit 23.1 hereto.

Except as described above, this Amendment No. 1 does not amend any other information set forth in the Original Filing, and the Company has not updated disclosures contained therein to reflect any events that occurred at a date subsequent to the date of the Original Filing. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as a result of this Amendment No. 1, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, included as exhibits to the Original Filing, have been amended, restated, re-executed and re-filed as of the date of this Amendment No. 1 and are included as Exhibits 31.1, 31.2, 32.1 and 32.2 hereto.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Index to Consolidated Financial Statements of  
Golden Star Resources Ltd.

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### **Independent Auditors Report**

To the Shareholders of Golden Star Resources Ltd.

We have completed integrated audits of Golden Star Resources Ltd.'s consolidated financial statements for the years ended December 31, 2006, December 31, 2005 and December 31, 2004 and of its internal control over financial reporting as of December 31, 2006. Our opinions, based on our audits, are presented below.

#### Consolidated financial statements

We have audited the accompanying consolidated balance sheets of Golden Star Resources Ltd. (the Company) as at December 31, 2006, and December 31, 2005, and the related consolidated statements of operations, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows 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 audits of the Company's financial statements as at December 31, 2006 and for each of the three years in the period ended December 31, 2006 in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). 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 at December 31, 2006, and December 31, 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 did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of the material weaknesses identified in management's assessment that management did not maintain effective controls over the accounting for warrants denominated in Canadian dollars using accounting principles generally accepted in the United States (US GAAP), over vendor payments which resulted in unauthorized payments which could have resulted in material amounts of unauthorized disbursements and over the computation and review of the in-process inventory balances 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.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management's assessment identified the following material weaknesses: (i) As of December 31, 2006, management did not maintain effective controls over the accounting for warrants denominated in Canadian dollars using accounting principles generally accepted in the United States ( US GAAP ). As a result, warrants denominated in Canadian dollars were treated as equity instruments rather than as derivative instruments. This control deficiency resulted in the requirement to restate, on Form 10-Q/A, the Company's interim consolidated financial statements for each of the three quarters ended September 30, 2006. In addition, this control deficiency could result in the misstatement of aforementioned accounts that would result in a material misstatement of the interim or annual consolidated financial statements that would not be prevented or detected. (ii) As of December 31, 2006, management did not maintain effective controls over vendor payments which resulted in unauthorized payments and which could have resulted in material amounts of unauthorized disbursements. In addition, this control deficiency could result in the misstatement of related accounts that would result in a material misstatement of the interim or annual consolidated financial statements that would not be prevented or detected. (iii) As of December 31, 2006, management did not maintain effective controls over the accounting for in-process inventory balances. Specifically, management did not maintain effective controls over the computation and review of the in process inventory calculation to ensure that appropriate components were properly reflected in the calculation. This control deficiency resulted in the requirement to restate, on Form 10-Q/A, the Company's interim consolidated financial statements for each of the three quarters ended September 30, 2006. In addition, this control deficiency could result in the misstatement of aforementioned accounts that would result in a material misstatement of the interim or annual consolidated financial statements that would not be prevented or detected.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the December 31, 2006 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

In our opinion, management's assessment that the Company did not maintain effective internal control over financial reporting as at December 31, 2006 is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the COSO. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the COSO.

/s/ PricewaterhouseCoopers LLP  
PricewaterhouseCoopers LLP  
**Chartered Accountants**  
**Vancouver, British Columbia, Canada**  
**March 13, 2007**



**GOLDEN STAR RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(Stated in thousands of US dollars except shares issued and outstanding)

|  | As of December 31, |                   |
|--|--------------------|-------------------|
|  | 2006               | 2005              |
| <b>ASSETS</b>  |                    |                   |
| <b>CURRENT ASSETS</b>                                      |                    |                   |
| Cash and cash equivalents                                  | \$ 27,108          | \$ 89,709         |
| Accounts receivable  | 8,820              | 6,560             |
| Inventories (Note 3)                                       | 45,475             | 23,181            |
| Future tax assets (Note 17)                                |                    | 6,248             |
| Fair value of derivatives (Note 12)                        |                    | 1,220             |
| Deposits (Note 4)  | 7,673              | 5,185             |
| Prepays and other  | 1,458              | 686               |
| <b>Total Current Assets</b>                                | <b>90,534</b>      | <b>132,789</b>    |
| <b>RESTRICTED CASH</b>                                     | <b>1,581</b>       | <b>5,442</b>      |
| <b>LONG TERM INVESTMENTS (Note 5)</b>                      | <b>1,457</b>       | <b>8,160</b>      |
| <b>DEFERRED EXPLORATION AND DEVELOPMENT COSTS (Note 6)</b> | <b>167,983</b>     | <b>167,532</b>    |
| <b>PROPERTY, PLANT AND EQUIPMENT (Note 7)</b>              | <b>93,058</b>      | <b>84,527</b>     |
| <b>MINING PROPERTIES (Note 8)</b>                          | <b>136,775</b>     | <b>118,088</b>    |
| <b>CONSTRUCTION IN PROGRESS (Note 9)</b>                   | <b>165,155</b>     | <b>36,707</b>     |
| <b>DEFERRED STRIPPING (Note 10)</b>                        |                    | <b>1,548</b>      |
| <b>FUTURE TAX ASSETS (Note 17)</b>                         | <b>6,657</b>       | <b>8,223</b>      |
| <b>OTHER ASSETS</b>  | <b>574</b>         | <b>1,587</b>      |
| <b>Total Assets</b>  | <b>\$ 663,774</b>  | <b>\$ 564,603</b> |
| <b>LIABILITIES</b>   |                    |                   |
| <b>CURRENT LIABILITIES</b>                                 |                    |                   |
| Accounts payable   | \$ 19,012          | \$ 9,093          |
| Accrued liabilities  | 25,516             | 17,051            |
| Fair value of derivatives (Note 12)                        | 685                | 4,709             |
| Current portion of future tax liability (Note 17)          | 1,450              |                   |
| Asset retirement obligations (Note 13)                     | 3,064              | 3,107             |
| Current debt (Note 11)                                     | 19,424             | 6,855             |
| <b>Total Current Liabilities</b>                           | <b>69,151</b>      | <b>40,815</b>     |
| <b>LONG TERM DEBT (Note 11)</b>                            | <b>66,911</b>      | <b>64,298</b>     |
| <b>ASSET RETIREMENT OBLIGATIONS (Note 13)</b>              | <b>16,034</b>      | <b>8,286</b>      |
| <b>FAIR VALUE OF DERIVATIVES (Note 12)</b>                 |                    | <b>7,263</b>      |
| <b>FUTURE TAX LIABILITY (Note 17)</b>                      | <b>42,154</b>      | <b>45,072</b>     |
| <b>Total liabilities</b>                                   | <b>194,250</b>     | <b>165,734</b>    |

|   |       |       |
|---|-------|-------|
| MINORITY INTEREST                       | 7,424 | 6,629 |
| COMMITMENTS AND CONTINGENCIES (Note 14) |       |       |

**SHAREHOLDERS EQUITY****SHARE CAPITAL**

First preferred shares, without par value, unlimited shares authorized. No shares issued and outstanding

Common shares, without par value, unlimited shares authorized. Shares issued and outstanding: 207,891,358 at December 31, 2006; 205,954,582 at December 31, 2005

|                                       |          |           |
|---------------------------------------|----------|-----------|
|                                       | 524,619  | 522,510   |
| CONTRIBUTED SURPLUS                   | 10,040   | 6,978     |
| EQUITY COMPONENT OF CONVERTIBLE NOTES | 2,857    | 2,857     |
| DEFICIT                               | (75,416) | (140,105) |

|                           |         |         |
|---------------------------|---------|---------|
| Total Shareholders Equity | 462,100 | 392,240 |
|---------------------------|---------|---------|

|   |            |            |
|---|------------|------------|
| Total Liabilities and Shareholders Equity | \$ 663,774 | \$ 564,603 |
|---|------------|------------|

*The accompanying notes are an integral part of these financial statements*

By: *Lars-Eric Johansson*  
Director

By: */s/ Peter J. Bradford* Director

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

|   | For the years ended December 31, |                        |                     |
|---|----------------------------------|------------------------|---------------------|
|   | <b>2006</b>                      | <b>2005</b>            | <b>2004</b>         |
| <b>REVENUE</b>                                      |                                  |                        |                     |
| Gold sales  | \$ 122,586                       | \$ 89,663              | \$ 60,690           |
| Royalty income                                      | 4,026                            | 4,178                  | 3,049               |
| Interest and other                                  | 2,078                            | 1,624                  | 1,290               |
| <br>Total revenues                                  | <br>128,690                      | <br>95,465             | <br>65,029          |
| <br><b>PRODUCTION EXPENSES</b>                      |                                  |                        |                     |
| Mining operations                                   | 92,730                           | 79,609                 | 39,095              |
| Depreciation, depletion and amortization            | 21,460                           | 15,983                 | 8,096               |
| Accretion of asset retirement obligation (Note 13)  | 835                              | 752                    | 645                 |
| <br>Total mine operating costs                      | <br>115,025                      | <br>96,344             | <br>47,836          |
| <br><b>OPERATING EXPENSES</b>                       |                                  |                        |                     |
| Exploration expense                                 | 1,462                            | 951                    | 895                 |
| General and administrative expense                  | 10,873                           | 8,631                  | 8,197               |
| Corporate development expense                       |                                  | 248                    | 4,504               |
| <br>Total production and operating expenses         | <br>127,360                      | <br>106,174            | <br>61,432          |
| <br>Operating income/(loss)                         | <br>1,330                        | <br>(10,709)           | <br>3,597           |
| <br><b>OTHER EXPENSES, (GAINS) AND LOSSES</b>       |                                  |                        |                     |
| Derivative mark-to-market loss (Note 12)            | 9,589                            | 11,820                 |                     |
| Abandonment and impairment of mineral properties    | 1,847                            | 1,403                  | 470                 |
| Gain on partial sale of investment in EURO (Note 5) | (50,903)                         | (977)                  |                     |
| Gain on sale of investment in Moto (Note 5)         | (30,240)                         |                        |                     |
| Loss on equity investments                          |                                  | 239                    | 331                 |
| Interest expense                                    | 1,846                            | 2,416                  | 139                 |
| Foreign exchange (gain)/loss                        | (2,330)                          | 574                    | 280                 |
| <br>Income/(loss) before minority interest          | <br>71,521                       | <br>(26,184)           | <br>2,377           |
| <br>Minority interest                               | <br>(794)                        | <br>(277)              | <br>(1,277)         |
| <br>Net income/(loss) before income tax             | <br>70,727                       | <br>(26,461)           | <br>1,100           |
| Income tax expense/(recovery) (Note 17)             | (6,038)                          | 12,930                 | 1,542               |
| <br>Net income/(loss)                               | <br><b>\$ 64,689</b>             | <br><b>\$ (13,531)</b> | <br><b>\$ 2,642</b> |

|  |          |            |          |
|--|----------|------------|----------|
| Net income/(loss) per common share basic (Note 18)       | \$ 0.312 | \$ (0.094) | \$ 0.019 |
| Net income/(loss) per common share diluted (Note 18)     | \$ 0.308 | \$ (0.092) | \$ 0.018 |
| Weighted average shares outstanding (millions of shares) | 207.5    | 143.6      | 138.5    |

*The accompanying notes are an integral part of these financial statements*

**GOLDEN STAR RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**  
(Stated in thousands of US dollars)

|  | Number of     |               | Contributed surplus |          | Equity component of    |             |
|--|---------------|---------------|---------------------|----------|------------------------|-------------|
|  | Common shares | Share capital | Warrants            | Options  | convertible debentures | Deficit     |
| Balance at December 31, 2003               | 132,924,278   | \$ 324,262    | \$ 2,361            | \$ 955   | \$                     | \$(129,216) |
| Warrants exercised                         |               | 755           | (755)               |          |                        |             |
| Option issued net of forfeitures           |               |               |                     | 1,218    |                        |             |
| Shares issued under options                | 767,180       | 1,239         |                     | (133)    |                        |             |
| Shares issued under warrants               | 8,494,609     | 14,332        |                     |          |                        |             |
| Shares issued to acquire property          | 58,045        | 300           |                     |          |                        |             |
| Net income                                 |               |               |                     |          |                        | 2,642       |
| Balance at December 31, 2004               | 142,244,112   | \$ 340,888    | \$ 1,606            | \$ 2,040 | \$                     | \$(126,574) |
| Shares issued                              | 31,589,600    | 75,864        |                     |          |                        |             |
| Issue costs                                |               | (4,168)       |                     |          |                        |             |
| Warrants issued                            |               |               | 992                 |          |                        |             |
| Warrants exercised                         |               | 22            | (22)                |          |                        |             |
| Option issued net of forfeitures           |               |               |                     | 2,476    |                        |             |
| Shares issued under options                | 312,940       | 722           |                     | (114)    |                        |             |
| Shares issued under warrants               | 385,000       | 718           |                     |          |                        |             |
| Stock bonus                                | 45,342        | 166           |                     |          |                        |             |
| Shares issued to acquire property          | 31,377,588    | 108,298       |                     |          |                        |             |
| Equity Component of Convertible Debentures |               |               |                     |          | 2,857                  |             |
| Net loss                                   |               |               |                     |          |                        | (13,531)    |
| Balance at December 31, 2005               | 205,954,582   | \$ 522,510    | \$ 2,576            | \$ 4,402 | \$ 2,857               | \$(140,105) |

|   |             |            |          |          |          |         |             |
|---|-------------|------------|----------|----------|----------|---------|-------------|
| Options issued net of forfeitures                   |             |            |          |          |          | 1,842   |             |
| Shares issued under options                         | 1,932,776   | 4,818      |          |          |          | (1,355) |             |
| Issue costs   |             | (149)      |          |          |          |         |             |
| Stock bonus   | 4,000       | 15         |          |          |          |         |             |
| Reclassification of warrants to Contributed surplus |             | (2,575)    | 2,575    |          |          |         |             |
| Net income  |             |            |          |          |          |         | 64,689      |
| Balance at December 31, 2006                        | 207,891,358 | \$ 524,619 | \$ 5,151 | \$ 4,889 | \$ 2,857 |         | \$ (75,416) |

*The accompanying notes are an integral part of these financial statements*

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

|   | <b>For the years ended December 31,</b> |             |             |
|---|---|-------------|-------------|
|   | <b>2006</b>                             | <b>2005</b> | <b>2004</b> |
| <b>OPERATING ACTIVITIES:</b>  |   |             |             |
| Net income/(loss)   | \$ 64,689                               | \$ (13,531) | \$ 2,642    |
| <b>Reconciliation of net income to net cash provided by operating activities:</b> |   |             |             |
| Depreciation, depletion and amortization  | 21,530                                  | 16,042      | 8,096       |
| Amortization of loan acquisition cost   | 358                                     | 228         |             |
| Deferred stripping  | 1,548                                   | (191)       | (1,357)     |
| Loss on equity investment   |   | 239         | 331         |
| Gain on sale of investments in Moto and EURO                                      | (81,143)                                | (977)       |             |
| Non-cash employee compensation  | 1,857                                   | 1,007       | 1,386       |
| Impairment of deferred exploration projects                                       | 1,847                                   | 1,413       | 470         |
| Income tax expense/(benefit)  | 6,347                                   | (12,930)    | (1,542)     |
| Reclamation expenditures  | (1,130)                                 | (691)       | (730)       |
| Fair value of derivatives   | 3,640                                   | 10,752      |             |
| Accretion of convertible debt   | 706                                     | 523         |             |
| Accretion of asset retirement obligations   | 835                                     | 752         | 645         |
| Minority interests  | 794                                     | 277         | 1,277       |
|   | 21,824                                  | 2,913       | 11,218      |
| <b>Changes in assets and liabilities:</b>   |   |             |             |
| Accounts receivable   | (4,077)                                 | (2,853)     | (2,802)     |
| Inventories   | (22,294)                                | (7,815)     | (2,705)     |
| Deposits  | (67)                                    | 163         |             |
| Accounts payable and accrued liabilities  | 10,716                                  | 8,817       | 8,204       |
| Other   | (758)                                   | (165)       | (5)         |
| Net cash provided by operating activities   | 5,398                                   | 1,060       | 13,910      |
| <b>INVESTING ACTIVITIES:</b>  |   |             |             |
| Expenditures on deferred exploration and development                              | (8,606)                                 | (5,954)     | (5,260)     |
| Expenditures on mining properties   | (15,784)                                | (26,631)    | (18,302)    |
| Expenditures on property, plant and equipment                                     | (19,372)                                | (36,321)    | (12,286)    |
| Expenditures on mine construction in progress                                     | (126,954)                               | (35,530)    | (23,783)    |
| Cash invested in short term investments   | (21,080)                                |             | (38,850)    |
| Cash provided by short term investments   | 21,080                                  | 38,850      |             |
| Cash provided by draw down of restricted cash                                     | 3,861                                   |             |             |
| Expenditure on purchase of Moto shares  | (1,656)                                 |             |             |
| Proceeds from sale of investment in Moto  | 38,952                                  |             |             |
| Proceeds from sale of investment in EURO  | 33,202                                  |             |             |
| Change in payable on capital expenditures   | 6,914                                   | 434         |             |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Sale of property                                 |           | 1,000     | 1,000     |
| Long term investments                            | (300)     | (2,871)   | (4,971)   |
| Deposits   | (2,420)   | (246)     | (5,102)   |
| Other  | 41        | (220)     | (894)     |
| Net cash used in investing activities            | (92,122)  | (67,489)  | (108,448) |
| <b>FINANCING ACTIVITIES:</b>                     |           |           |           |
| Issuance of share capital, net of issue costs    | 3,463     | 73,132    | 15,270    |
| Debt repayments (Note 11)                        | (6,622)   | (3,678)   | (153)     |
| Issuance of debt (Note 11)                       | 27,431    | 74,191    | 2,328     |
| Other  | (149)     | (384)     |           |
| Net cash provided by financing activities        | 24,123    | 143,261   | 17,445    |
| Increase/(decrease) in cash and cash equivalents | (62,601)  | 76,832    | (77,093)  |
| Cash and cash equivalents, beginning of period   | 89,709    | 12,877    | 89,970    |
| Cash and cash equivalents end of period          | \$ 27,108 | \$ 89,709 | \$ 12,877 |

*(See Note 19 for supplemental cash flow information)*

*The accompanying notes are an integral part of these financial statements*



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

**1. Nature of operations**

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 ( HBB 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 103,792 ounces of gold during 2006.

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 97,614 ounces of gold in 2006.

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 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 HBB Properties in southwest Ghana. The HBB 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. 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. As of December 31, 2006, we held indirect interests in gold exploration properties in Peru, Argentina and Chile through a 16.5% shareholding investment in Minera IRL (formerly Goldmin Consolidated Holdings). As of December 31, 2006, we also owned a 6% interest in EURO Ressources S.A. ( EURO ), a French publicly traded royalty holding company.

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. Summary of Significant Accounting Policies**

***Basis of consolidation and the preparation of financial statements***

These consolidated financial statements are prepared and reported in United States ( US ) dollars and in accordance with generally accepted accounting principles in Canada ( Cdn GAAP ) which differ in some respects from GAAP in the United States ( US GAAP ). These differences in GAAP are quantified and explained in Note 24. The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries whether owned directly or indirectly. All material inter-company balances and transactions have been eliminated.



***Use of estimates***

Preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that can affect reported amounts of assets, liabilities, revenues and expenses. The more significant areas requiring the use of estimates include asset impairments, stock based compensation, depreciation and amortization of assets, and site reclamation and closure accruals. Accounting for these areas is subject to estimates and assumptions regarding, among other things, ore reserves, gold recoveries, future gold prices, future operating costs, asset usage rates, and future mining activities. Management bases its estimates on historical experience and on other assumptions we believe to be reasonable under the circumstances. However, actual results may differ from our estimates.

***Cash and cash equivalents***

Cash and cash equivalents include cash deposits, in any currency, residing in checking, interest bearing checking accounts, money market funds and sweep accounts. Cash equivalents consist of highly liquid short term investments. We consider all highly liquid marketable securities with maturities of less than 91 days at date of purchase to be cash equivalents. Our cash equivalents consist mostly of US and Canadian government treasury bills and agency notes.

***Marketable securities***

Short term investments in publicly traded marketable securities are recorded at cost or at quoted market prices if a permanent devaluation of the security has occurred. The market value is based on the closing price at the end of the period, as reported on recognized securities exchanges.

***Inventories***

Inventory classifications include stockpiled ore, in-process inventory, finished goods inventory and materials and supplies. All of our inventories are recorded at the lower of cost or market. The stated value of all production inventories include direct production costs and attributable overhead and depreciation except for materials and supplies inventories.

Stockpiled ore represents coarse ore that has been extracted from the mine and is awaiting processing. Stockpiled ore is measured by estimating the number of tonnes (via truck counts or by physical surveys) added or removed from the stockpile, the number of contained ounces (based on assay data) and estimated gold recovery percentage. Stockpiled ore value is based on the costs incurred (including depreciation and amortization) in bringing the ore to the stockpile. Costs are added to the stockpiled ore based on current mining costs per tonne and are removed at the average cost per recoverable ounce of gold in the stockpile.

In-process inventory represents material that is currently being treated in the processing plants to extract the contained gold and to transform it into a saleable product. The amount of gold in the in-process inventory is determined by assay and by measure of the quantities of the various gold-bearing materials in the recovery process. The in-process gold is valued at the average of the beginning inventory and the cost of material fed into the processing stream plus in-process conversion costs including applicable depreciation and amortization related to the processing facilities.

Finished goods inventory is composed of saleable gold in the form of doré bars that have been poured but not yet delivered to the buyer. The bars are valued at the lower of total cost or market value. Included in the total costs are the direct costs of the mining and processing operations as well as direct overhead, amortization and depreciation. Materials and supplies inventories consist mostly of equipment parts, fuel and lubricants and reagents consumed in ore processing. Materials and supplies are valued at the lower of average cost or replacement cost.

***Reserve quantities used in units-of-production amortization***

Gold ounces contained in ore stockpiles recognized in inventory balances on the balance sheet are excluded from total reserves when determining units-of-production amortization of mining property, asset retirement assets and other assets.

***Exploration costs***

Exploration costs related to specific, identifiable properties, including the cost of acquisition, exploration and development, are capitalized until viability of the exploration property is determined. Exploration costs not directly related to an identifiable property are expensed as incurred.

Management periodically reviews, on a property-by-property basis, the carrying value of such properties including the costs of acquisition, exploration and development incurred to date. A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of contained or potential mineralized materials, potential reserves, anticipated future mineral prices, the anticipated costs of additional exploration and, if warranted, costs of potential future development and operations, and the expiration terms and ongoing expenses of maintaining leased mineral properties. We do not set a pre-determined holding period for properties with unproven reserves; however, properties which have not demonstrated suitable metal concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and if their carrying values are appropriate.

If an exploration property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of value. Any subsequent costs incurred for that property are expensed as incurred.

The accumulated costs of mineral properties are reclassified as mine property and depleted on a units-of-production basis at such time as production commences.

***Impairment of long-lived assets***

We review and evaluate our long-lived assets for impairment at least annually and also when events or changes in circumstances indicate the related carrying amounts may not be recoverable. Asset impairment is considered to exist if the total estimated future cash flows, on an undiscounted basis, are less than the carrying amount of the long-lived asset. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are based on estimated quantities of recoverable minerals, expected gold and other commodity prices (considering current and historical prices, price trends and related factors), production levels and cash costs of production, capital and reclamation costs, all based on detailed engineering life-of-mine plans.

In estimating future cash flows, assets are grouped at the lowest levels for which there are identifiable cash flows that are largely independent of future cash flows from other asset groups. With the exception of other mine-related exploration potential and exploration potential in areas outside of the immediate mine-site, all assets at a particular operation are considered together for purposes of estimating future cash flows. In the case of mineral interests associated with other mine-related exploration potential and exploration potential in areas outside of the immediate mine-site, cash flows and fair values are individually evaluated based primarily on recent exploration results. Various factors could impact our ability to achieve forecasted production schedules from proven and probable reserves. Additionally, commodity prices, capital expenditure requirements and reclamation costs could differ from the assumptions used in the cash flow models used to assess impairment. The ability to achieve the estimated quantities of recoverable minerals from exploration stage mineral interests involves further risks in addition to those factors applicable to mineral interests where proven and probable reserves have been identified, due to the lower level of confidence that the identified mineralized material can ultimately be mined economically.

Material changes to any of these factors or assumptions discussed above could result in future impairment charges to operations.

***Property, plant, equipment and mine development***

Property, plant and equipment assets, including, machinery, processing equipment, mining equipment, mine site facilities, vehicles and expenditures that extend the life of such assets are recorded at cost, including direct acquisition costs. Depreciation for mobile equipment and other assets having estimated lives shorter than the estimated life of the ore reserves, is computed using the straight-line method at rates calculated to depreciate the cost of the assets, less their anticipated residual values, if any, over their estimated useful lives.

Mineral property acquisition, exploration and development costs, buildings, processing plants and other long-lived assets which have an estimated life equal to or greater than the estimated life of the ore reserves, are amortized over the life of the reserves of the associated mining property using a units-of-production amortization method. The net



book value of property, plant and equipment assets at property locations is charged against income if the site is abandoned and it is determined that the assets cannot be economically transferred to another project or sold.

***Deferred stripping***

Prior to December 31, 2006 we employed a deferred stripping accounting convention to capitalize the costs of waste rock mined from one of our open pit mines during periods when waste rock is removed in amounts that exceed the life-of-mine average waste removal rate. The amount of stripping costs to be capitalized in each period was 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 were recovered in periods when the actual tonnes of waste moved are less than what would have been moved at the average life-of-pit rate, such tonnes being valued at the rolling average cost of the waste tonnage amounts capitalized.

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.

***Asset retirement obligations***

In accordance with the requirements of the CICA Handbook Section 3110, Asset Retirement Obligations environmental reclamation and closure liabilities are recognized at the time of environmental disturbance in amounts equal to the discounted value of expected future reclamation and closure costs. The discounted cost of future reclamation and closure activities is capitalized into mine property and amortized over the life of the property. The estimated future cash costs of such liabilities are based primarily upon environmental and regulatory requirements of the various jurisdictions in which we operate. Cash expenditures for environmental remediation and closure are netted against the accrual as incurred.

***Foreign currencies and foreign currency translation***

Our functional currency is the US dollar. Transaction amounts denominated in foreign currencies are translated to US dollars at exchange rates prevailing at the date of the transaction. The carrying value of monetary assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Non-monetary assets are translated at the rates of exchange prevailing when the assets were acquired or the liabilities assumed. Revenue and expense items are translated at the average rate of exchange during the period. Translation gains or losses are included in net earnings for the period.

Canadian currency in these financial statements is denoted as Cdn\$, European Common Market currency is denoted as Euro or €, and Ghanaian currency is denoted as Cedi or Cedis.

***Income taxes***

Income taxes comprise the provision (or recovery) for taxes actually paid or payable and for future taxes. Future income taxes are computed using the asset and liability method whereby future income tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Future income tax assets and liabilities are computed using income tax rates in effect when the temporary differences are expected to reverse. The effect on the future tax assets and liabilities of a change in tax rates is recognized in the period of substantive enactment. The provision or recovery for future taxes is based on the changes in future tax assets and liabilities during the period. In estimating future income tax assets, a valuation allowance is determined to reduce the future tax assets to amounts that are more likely than not to be realized.

***Net income per share***

Basic income per share is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. In periods with earnings the calculation of diluted net income per common share uses the treasury stock method to compute the dilutive effects of stock options, warrants and other dilutive instruments. In periods of loss, diluted net income per share is equal to basic income per share.

***Revenue recognition***

Revenue from the sale of gold is recognized when title and the risk of ownership pass to the buyer. Title and risk of ownership pass to the buyer when doré is delivered to the buyer's refinery. Our gold is sold to a South African gold



refinery and revenue is recognized when title is transferred to the customer at the refinery. The sales price is based on the London P.M. fix on the day of delivery.

Revenues from by-products are credited against operating costs and not included in revenues. By-product revenues have been *de minimis* to date at our existing properties.

***Stock based compensation***

In accordance with the requirements of CICA Handbook Section 3870, *Stock Based Compensation and other Stock-based Payments* we use the fair value method to expense the fair value of options granted to employees and directors. The fair value of options granted is established at the date of the grant, using the Black-Scholes option-pricing model. Compensation expense for options with immediate vesting is recognized in the period of the grant. Compensation expense for options with graded vesting is recognized on a straight line basis over the vesting periods.

***Derivatives***

At various times we utilize forward foreign exchange and commodity price derivatives to manage exposure to fluctuations in foreign currency exchange rates and gold prices. We do not employ derivative financial instruments for trading purposes or for speculative purposes. Our derivative instruments are recorded on the balance sheet at fair value with changes in fair value recognized in earnings at the end of each period in an account titled *Derivative mark-to-market loss*.

***Recent accounting pronouncements***

**Section 1530 *Comprehensive Income*** This Section introduces new disclosure requirements regarding comprehensive income and its components, as well as net income, in the financial statements. As a consequence, certain unrealized gains and losses, which would otherwise be excluded from the calculation of net income and be assigned directly to shareholders' equity, will be used to calculate comprehensive income. This section will be effective for fiscal years beginning on or after October 1, 2006. We adopted this new requirement in our January 2007 reporting.

**Section 3855 *Financial Instruments Recognition and Measurement*** This section determines the time and value at which a financial instrument must be recorded in the balance sheet. In some cases, it may be measured at fair value or, in other cases, at cost. The standard also provides for the manner in which gains and losses related to financial instruments are to be recorded. This section will be effective for interim periods and fiscal years beginning on or after October 1, 2006. We adopted this new requirement in our January 2007 reporting.

**Section 3865 *Hedges*** This section provides guidance for hedge accounting when applied to certain derivatives that meet the definition of a hedge. Application of Section 3865 to derivatives that qualify as a hedges is optional, but once a derivative is classified as a hedge, the provisions of Section 3865 are then mandatory. Section 3865 replaces AcG-13, *Hedging Relationships* and completes the provisions of Section 1650, *Foreign Currency Translation*, by addressing how to account for hedges and related disclosure of information requirements. This section will be effective for fiscal years beginning on or after October 1, 2006. We adopted this new requirement in our January 2007 reporting.

**Section 3861 *Financial Instruments Disclosure and Presentation*** replaces Section 3860, *Financial Instruments Disclosure and Presentation*, and establishes the requirements for presentation and disclosure of financial instruments and non-financial derivatives.

**EIC-160** On March 2, 2006, the CICA Emerging Issues Committee ( *EIC* ) issued EIC 160 *Stripping Costs Incurred in the Production Phase of a Mining Operation*. This EIC requires stripping costs to be accounted for as variable production costs to be included in inventory unless the stripping activity can be shown to be a betterment of the mineral property, in which case the stripping costs would be capitalized. A betterment occurs when stripping activity increases future output of the mine by providing access to additional sources of reserves. Capitalized stripping costs would be amortized on a units-of-production basis over the proven and probable reserves to which they relate. We adopted this new requirement in our January 2007 reporting. As at December 31, 2006, the Company does not have any deferred stripping costs capitalized.



**3. Inventories**

|                        | <b>As of December 31,</b> |                  |
|------------------------|---------------------------|------------------|
|                        | <b>2006</b>               | <b>2005</b>      |
| Stockpiled ore         | \$ 18,244                 | \$ 5,753         |
| In process             | 4,596                     | 3,106            |
| Materials and supplies | 22,635                    | 14,322           |
| <b>Total</b>           | <b>\$ 45,475</b>          | <b>\$ 23,181</b> |

There were approximately 92,000 and 16,000 recoverable ounces of gold in ore stockpile inventories at December 31, 2006 and 2005, respectively. The stockpile inventories are for the most part short-term surge piles which will be processed in the next 12 months or less.

**4. Deposits**

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

**5. Long term investments***Investment in Minera IRL*

At December 31, 2006 we held a 16.3% interest in Minera IRL, 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 we no longer had significant influence, and we now account for the investment on the cost basis at \$1.5 million.

*Investment in Moto Goldmines Limited*

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 \$30.2 million.

*Investment in EURO*

EURO s most significant asset is its royalty from the Rosebel mine in Suriname, owned and operated by IAMGold Corporation. At December 31, 2005 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 for \$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. 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.

During December 2006, we sold approximately eighteen million common shares of EURO Ressources S.A. ( EURO ) in a series of public and private transactions, resulting in the reduction of Golden Star s ownership interest in EURO to approximately three million EURO shares or approximately 6% of its outstanding equity. Net proceeds of the sale totaled approximately \$30.0 million and as a result of this sale, the earlier sales and the change to the equity method of accounting we recognized a total gain of \$50.9 million.



Since our investment in EURO was diluted to less than 20% in December 2006, we now account for the investment on the cost basis at zero carrying value. The market value of the remaining EURO common shares was \$5.7 million at December 31, 2006 based on EURO's closing share price as of that date.

In addition to the remaining approximate 6% shareholding in EURO as of December 31, 2006, we hold a residual participation right payable by EURO, based on gold production from IAMGold's Gross Rosebel Mine on gross gold production in excess of 2.0 million ounces and less than 7.0 million ounces and an option to joint venture the Paul Isnard Project in French Guiana with EURO.

#### 6. Deferred exploration and development costs

Consolidated property expenditures on our exploration projects for the year ended December 31, 2006 were as follows:

|                                | Deferred<br>Exploration<br>&<br>Development<br>Costs as of<br>12/31/05 |         | Capitalized<br>Exploration<br>Expenditures | Acquisition<br>Costs | Impairments | Transfer<br>to<br>mining<br>properties | Deferred<br>Exploration<br>&<br>Development<br>Costs as of<br>12/31/06 |
|--------------------------------|--|---------|--|----------------------|-------------|--|--|
| <b>AFRICAN PROJECTS</b>        |  |         |  |                      |             |  |  |
| Akropong trend and other Ghana | \$   | 4,947   | \$ 95                                      | \$                   | \$          | \$ (4,209)                             | \$ 833   |
| Prestea property Ghana         |  | 2,074   | 25   |                      |             | (2,099)                                |  |
| Hwini Butre and Benso Ghana    |  | 135,832 | 4,486                                      | 2,397                |             |  | 142,715  |
| Mano River Sierra Leone        |  | 1,285   | 927  |                      | (197)       |  | 2,015  |
| Afema Ivory Coast              |  | 1,028   | 484  |                      |             |  | 1,512  |
| Goulagou Burkina Faso          |  | 18,247  | 288  | 254                  |             |  | 18,789   |
| Other Africa                   |  | 1,750   | 422  | (1,090)              |             |  | 1,082  |
| <b>SOUTH AMERICAN PROJECTS</b> |  |         |  |                      |             |  |  |
| Saramacca Suriname             |  | 731     | 50   |                      |             |  | 781  |
| Bon Espoir French Guiana       |  | 1,382   | 268  |                      | (1,650)     |  |  |
| Other South America            |  | 256     |  |                      |             |  | 256  |
| <b>Total</b>                   | \$   | 167,532 | \$ 7,045                                   | \$ 1,561             | \$ (1,847)  | \$ (6,308)                             | \$ 167,983   |

Consolidated property expenditures on our exploration projects for the year ended December 31, 2005 were as follows:

|  | Deferred<br>Exploration<br>&<br>Development<br>Costs as of |  | Capitalized<br>Exploration<br>Expenditures | Acquisition | Transfer<br>to<br>mining | Deferred<br>Exploration<br>&<br>Development<br>Costs as of |
|--|--|--|--|-------------|--------------------------|--|
|--|--|--|--|-------------|--------------------------|--|

|                                | 12/31/04 | Expenditures | Costs      | Impairments | properties | 12/31/05   |
|--------------------------------|----------|--------------|------------|-------------|------------|------------|
| <b>AFRICAN PROJECTS</b>        |          |              |            |             |            |            |
| Akropong trend and other Ghana | \$ 2,443 | \$ 2,824     | \$         | \$ (320)    | \$         | \$ 4,947   |
| Prestea property Ghana         | 2,067    | 7            |            |             |            | 2,074      |
| Hwini Butre and Benso Ghana    |          |              | 135,832    |             |            | 135,832    |
| Mano River Sierra Leone        | 758      | 527          |            |             |            | 1,285      |
| Afema Ivory Coast              |          | 918          | 110        |             |            | 1,028      |
| Goulagou Burkina Faso          |          |              | 18,247     |             |            | 18,247     |
| Mininke Mali                   | 1,033    | 50           |            | (1,083)     |            |            |
| Other Africa                   |          |              | 1,750      |             |            | 1,750      |
| <b>SOUTH AMERICAN PROJECTS</b> |          |              |            |             |            |            |
| Saramacca Suriname             | 394      | 337          |            |             |            | 731        |
| Bon Espoir French Guiana       | 501      | 881          |            |             |            | 1,382      |
| Other South America            | 256      |              |            |             |            | 256        |
| <b>Total</b>                   | \$ 7,452 | \$ 5,834     | \$ 155,649 | \$ (1,403)  | \$         | \$ 167,532 |

**7. Property, plant and equipment**

|                     | As of December 31, 2006                           |                             |  | As of December 31, 2005                           |                             |   |
|---------------------|---|-----------------------------|--|---|-----------------------------|---|
|                     | Property,<br>Plant<br>and<br>Equipment<br>at Cost | Accumulated<br>Depreciation | Property,<br>Plant and<br>Equipment<br>Net Book<br>Value | Property,<br>Plant<br>and<br>Equipment<br>at Cost | Accumulated<br>Depreciation | Property,<br>Plant and<br>Equipment,<br>Net Book<br>Value |
| Bogoso/Prestea      | \$ 57,392   | \$ 13,263                   | \$ 44,129  | \$ 40,802   | \$ 8,240                    | \$ 32,562   |
| Prestea Underground | 236   |                             | 236  | 2,748   |                             | 2,748   |
| Wassa               | 55,785  | 7,618                       | 48,167   | 50,701  | 1,985                       | 48,716  |
| EURO Ressources     |   |                             |  | 1,456   | 1,449                       | 7   |
| Corporate & Other   | 924   | 398                         | 526  | 611   | 117                         | 494   |
| <b>Total</b>        | <b>\$ 114,337</b>                                 | <b>\$ 21,279</b>            | <b>\$ 93,058</b>   | <b>\$ 96,318</b>                                  | <b>\$ 11,791</b>            | <b>\$ 84,527</b>  |

**8. Mining properties**

|                     | As of December 31, 2006            |                             |  | As of December 31, 2005            |                             |  |
|---------------------|------------------------------------|-----------------------------|--|------------------------------------|-----------------------------|--|
|                     | Mining<br>Properties<br>at<br>Cost | Accumulated<br>Amortization | Mining<br>Properties,<br>Net Book<br>Value | Mining<br>Properties<br>at<br>Cost | Accumulated<br>Amortization | Mining<br>Properties,<br>Net Book<br>Value |
| Bogoso/Prestea      | \$ 51,868                          | \$ 33,241                   | \$ 18,627                                  | \$ 46,970                          | \$ 28,792                   | \$ 18,178                                  |
| Prestea Underground | 28,891                             |                             | 28,891                                     | 21,612                             |                             | 21,612                                     |
| Bogoso Sulfide      | 13,352                             |                             | 13,352                                     | 13,065                             |                             | 13,065                                     |
| Mampon              | 15,721                             |                             | 15,721                                     | 15,062                             |                             | 15,062                                     |
| Wassa               | 58,578                             | 11,234                      | 47,344                                     | 50,810                             | 5,104                       | 45,706                                     |
| Other               | 12,840                             |                             | 12,840                                     | 4,465                              |                             | 4,465                                      |
| <b>Total</b>        | <b>\$ 181,250</b>                  | <b>\$ 44,475</b>            | <b>\$ 136,775</b>                          | <b>\$ 151,984</b>                  | <b>\$ 33,896</b>            | <b>\$ 118,088</b>                          |

**9. Construction-in-progress**

At December 31, 2006 and 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 December 31, |                  |
|-------------------------------------|--------------------|------------------|
|                                     | 2006               | 2005             |
| Plant construction cost             | \$ 118,826         | \$ 27,655        |
| Mining equipment cost               | 10,505             |                  |
| Pre-production stripping cost       | 22,397             |                  |
| Sub-total                           | 151,728            | 27,655           |
| Costs prior to project commencement | 7,216              | 7,216            |
| Capitalized interest                | 6,211              | 1,836            |
| <b>Total</b>                        | <b>\$ 165,155</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.

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.

Deferred stripping costs on our 2006 financial statements were related to the Plant-North pit at Prestea. The Plant-North pit was closed in late 2006 upon completion of mining activities.

During the year ended December 31, 2006 all the remaining deferred stripping cost of \$1.5 million was recovered.

## 11. Debt

|                                    | <b>As of December 31,</b> |             |
|------------------------------------|---------------------------|-------------|
|                                    | <b>2006</b>               | <b>2005</b> |
| Current debt:                      |                           |             |
| Bank loan EURO (Note a)            | \$                        | \$ 2,667    |
| Debt facility (Note b)             | 6,875                     |             |
| Equipment financing loans (Note c) | 12,549                    | 4,188       |
| Total current debt                 | \$ 19,424                 | \$ 6,855    |
| Long term debt:                    |                           |             |
| Bank loan EURO (Note a)            | \$                        | \$ 5,000    |
| Debt facility (Note b)             | 8,125                     |             |
| Equipment financing loans (Note c) | 10,413                    | 11,632      |
| Convertible notes (Note d)         | 48,373                    | 47,666      |
| Total long term debt               | \$ 66,911                 | \$ 64,298   |

(a) Bank loan As a result of the sale of the EURO shares during the year (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 December 31, 2006.

(b) Debt facility  
On October 11<sup>th</sup>, 2006, GSBPL entered into an agreement for a \$15.0 million debt facility with two

Ghana-based banks known as Ecobank Ghana Limited and Cal Bank Limited. The \$15.0 million was drawn down in October and November and is repayable over a term of 24 months starting 3 months after draw-down at an interest rate of US prime (currently 8.25%) plus 1%. Loan fees totaled one percent of the facility amount. The debt is secured by the non-mobile assets of Bogoso/Prestea and proceeds are to be used to cover construction costs of the Bogoso Sulfide Expansion Project. There are no hedging requirements or equity-type incentives required under the facility. Due to the short term nature of this facility, the fair value of the debt facility approximates the book value



at December 31,  
2006.

- (c) Equipment financing credit facility We maintain 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 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 December 31, 2006, \$23.0 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 \$21.7 million at December 31, 2006.

- (d) 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%. They are convertible at any time at the option of the holder at 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.) common shares issued 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 over 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 \$6.2 million of interest on the

convertible notes has been capitalized as Bogoso sulfide expansion project costs. The loan fees totaled approximately \$0.9 million, this amount was capitalized and is being amortized over the term of the notes. The remaining balance of \$0.6 million was included in other assets at December 31, 2006. We estimate the fair value of the convertible notes to be approximately \$47.5 million at December 31, 2006.

## 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 IAMGold Corporation, 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. During the first half of 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 our EURO shares in June 2006 (see Note 5), we no longer consolidate the financial statements of EURO. Therefore, the EURO derivative contract liability is not included in our consolidated balance sheet as of December 31, 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 the gold price during 2006 resulted in a nil value for our remaining puts at December 31, 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 37,500 ounces of put options with an average strike price of \$404 per ounce remaining at December 31, 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. In addition, call options for 29,000 ounces were exercised during the year requiring total payments of \$2.6 million to the counterparty. The lower number of call options held by the Company at December 31, 2006 resulted in a lower mark-to-market value and accordingly we recorded a \$1.6 million derivative gain on the calls. At December 31, 2006 our gold call obligation consists of 6,000 ounces at \$525 per ounce, and at the date of this report there are none.

**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 expected to purchase during the 2006 construction phase of the Bogoso Sulfide Expansion Project, we entered into forward contracts. These contracts, established without cost, had a fair value of nil and \$1.0 million at December 31, 2006 and December 31, 2005, respectively. The following table summarizes our derivative contracts at December 31, 2006:

| <b>At December 31, 2006</b>  | <b>Scheduled for<br/>settlement in<br/>first quarter<br/>of<br/>2007</b> |
|------------------------------|--|
| Gold put options             |  |
| Ounces (thousands)           | 37.5   |
| Average price per ounce (\$) | 404  |
| Gold call options            |  |
| Ounces (thousands)           | 6  |
| Average price per ounce (\$) | 525  |

|  | December<br>31,<br>2006 | Fair value<br>of<br>EURO<br>derivative<br>on<br>June 19,<br>2006 | December<br>31,<br>2005 | (Expense)/<br>Gain |
|--|-------------------------|--|-------------------------|--------------------|
| <b>Fair Value of Derivatives</b>           |                         |  |                         |                    |
| Cash settled forward gold price agreements | \$                      | \$ (13,707)  | \$ (9,560)              | \$ (4,147)         |
| Puts                                       |                         |  | 74                      | (74)               |
| Calls                                      | (685)                   |  | (2,250)                 | 1,565              |
| Rand forward purchases                     |                         |  | 1,146                   | (1,146)            |
| Euro forward purchases                     |                         |  | (162)                   | 162                |
| <b>Unrealized loss</b>                     | \$ (685)                | \$ (13,707)  | \$ (10,752)             | \$ (3,640)         |
| <b>Realized loss</b>                       |                         |  |                         |                    |
| Cash settled forward gold price agreements |                         |  |                         | (757)              |
| Calls                                      |                         |  |                         | (5,192)            |
| <b>Total derivative loss</b>               |                         |  |                         | \$ (9,589)         |

### 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 asset retirement obligation liability as incurred. The total undiscounted amount of the estimated cash flows is \$30.5 million.

The changes in the carrying amount of the ARO during 2006 and 2005 were as follows:

|  | 2006             | 2005             |
|--|------------------|------------------|
| Balance at January 1                     | \$ 11,393        | \$ 8,660         |
| Accretion expense                        | 835              | 752              |
| Cost of reclamation work performed       | (1,130)          | (691)            |
| Additions, change in estimates and other | 8,000            | 2,672            |
| <b>Balance at December 31</b>            | <b>\$ 19,098</b> | <b>\$ 11,393</b> |
| Current portion                          | \$ 3,064         | \$ 3,107         |
| Long term portion                        | \$ 16,034        | \$ 8,286         |

The new liabilities incurred during 2006 relates to the greater reclamation liability associated with the Bogoso Sulfide Expansion Project, the reclamation liability incurred with the development of the Pampe properties 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 as required by the Ghana Environmental Protection Agency ( EPA ) and updated our cost estimates based on the results of the study.

The undiscounted cash flows used to determine the ARO are \$31.5 million. A credit adjusted risk free rate of 9.25% was used to discount our additions to the ARO during 2006.

**14. Commitments and contingencies**

Our commitments and contingencies include the following items:

- (a) **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.

- (b) **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.
- (c) **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 to us in September 2006.
- (d) **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 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) **Riyadh:** Riyadh is subject to a 10% net smelter return royalty.
- (v) **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.
- (e) **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 its 90% interest in the Afema gold property in south east Cote d'Ivoire. 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. In addition to the acquisition payment, 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.



- (f) **Hwini-Butre** As part of the Sales Agreement for the purchase of the HBB properties, Golden Star has agreed to pay B.D. Goldfields Ltd an additional \$1.0 million upon receipt of all the necessary licenses, permits, approvals and consents required to mine the Hwini-Butre concession.
- (g) 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. Warrants**

The following warrants were outstanding as of December 31, 2006 and 2005.

| Issued with:         | Date issued       | Warrants    |                |                   |
|----------------------|-------------------|-------------|----------------|-------------------|
|                      |                   | outstanding | Exercise price | Expiration date   |
| 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 expired on February 14, 2007 traded on the Toronto Stock Exchange under the symbol GSC.WT.A. During 2005, 385,000 warrants were exercised resulting in cash proceeds of \$0.7 million to Golden Star.

**16. 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 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 5,647,150 are available at December 31, 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 792,000 remain unexercised as of December 31, 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:

|   | 2006    | 2005  | 2004    |
|---|---------|-------|---------|
| Total stock compensation cost during the period | \$1,842 | \$900 | \$1,400 |

We granted 1,411,750, 514,000 and 855,000 options under the Plan during the years ended December 31, 2006, 2005 and 2004, 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 years ended December 31, 2006, 2005 and 2004.

The fair value of options granted during 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:

|                         | 2006            | 2005           | 2004           |
|-------------------------|-----------------|----------------|----------------|
| Expected volatility     | 50.67 to 63.83% | 27.3 to 34.9%  | 36%            |
| Risk free interest rate | 4.00% to 4.70%  | 2.75% to 3.50% | 3.72% to 4.06% |
| Expected lives          | 4 to 7 years    | 0.5 to 5 years | 3.5 to 5 years |
| Dividend yield          | 0%              | 0%             | 0%             |

In 2006, expected volatilities are based on the mean reversion tendency of the volatility of Golden Star's shares and its peer group. 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 options 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 December 31, 2006 and changes during the year then ended is presented below:

|                                     | <b>Options</b> | <b>Weighted<br/>Average<br/>Exercise<br/>price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>intrinsic<br/>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  | \$ 2,533                                 |
| Granted                             | 1,412          | 3.59   | 9.6  |  |
| Exercised                           | (1,933)        | 1.96   |  | (3,162)                                  |
| Forfeited                           | (313)          | 5.89   |  |  |
| Outstanding as of December 31, 2006 | 6,556          | 2.98   | 5.7  | 3,583                                    |
| Exercisable at December 31, 2006    | 5,381          | 2.73   | 5.0  | \$ 2,668                                 |

| <b>Range of exercise<br/>prices (Cdn\$)</b> | <b>Options outstanding</b>   |  |   | <b>Options exercisable</b>   |   |
|---|--|--|---|--|---|
|   | <b>Number<br/>outstanding<br/>at<br/>December<br/>31,<br/>2006</b> | <b>Weighted<br/>average<br/>remaining<br/>contractual<br/>life<br/>(years)</b> | <b>Weighted-<br/>average<br/>exercise<br/>price<br/>(Cdn\$)</b> | <b>Number<br/>exercisable<br/>at<br/>December<br/>31,<br/>2006</b> | <b>Weighted-<br/>average<br/>exercise<br/>price<br/>(Cdn\$)</b> |
| 1.00 to 2.50                                | 3,396  | 3.5  | 1.58  | 3,396  | 1.58  |
| 2.51 to 4.00                                | 1,882  | 8.4  | 3.46  | 1,078  | 3.43  |
| 4.01 to 7.00                                | 1,234  | 7.5  | 5.90  | 863  | 6.07  |
| 7.01 to 10.00                               | 44   | 7.0  | 9.07  | 44   | 9.07  |
|   | 6,556  | 5.7  | 2.98  | 5,381  | 2.73  |

The weighted average grant date fair value of share options granted during the years ended December 31, 2006, 2005 and 2004 was Cdn\$2.61, Cdn\$0.95 and Cdn\$2.45, respectively. The intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was \$3.2 million, \$0.4 million, and \$4.4 million, respectively.

A summary of the status of non-vested options at December 31, 2006 and changes during the year ended December 31, 2006, is presented below:

|                               | <b>Number of<br/>options<br/>( 000)</b> | <b>Weighted<br/>average<br/>grant date<br/>fair value<br/>(Cdn\$)</b> |
|-------------------------------|---|---|
| Non-vested at January 1, 2006 | 670                                     | 1.95  |
| Granted                       | 1,412                                   | 2.61  |
| Vested                        | (764)                                   | 2.43  |
| Forfeited                     | (143)                                   | 2.36  |

Non-vested at December 31, 2006 1,175 2.38

As of December 31, 2006 there was a total unrecognized compensation cost of Cdn\$2.0 million related to share based compensation granted under the Plan. That cost is expected to be recognized over a weighted average period of 2.2 years. The total fair values of shares vested during the year ended December 31, 2006, 2005 and 2004 were Cdn\$1.9 million, Cdn\$2.9 million, and Cdn\$ 1.7 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 December 31, 2006.

During the year ended December 31, 2006 and 2005 we issued 4,000 and 45,342 common shares, respectively, to employees under the Bonus Plan.

**17. Income taxes**

We recognize future tax assets and liabilities based on the difference between the financial reporting and tax basis of assets and liabilities using the enacted tax rates expected to be in effect when the taxes are paid or recovered. We provide a valuation allowance against future tax assets for which we do not consider realization of such assets to meet the required more likely than not standard.

Our future tax assets and liabilities at December 31, 2006 and 2005 include the following components:

|  | <b>December 31,</b> |                    |
|--|---------------------|--------------------|
|  | <b>2006</b>         | <b>2005</b>        |
| <b>Future tax assets:</b>                  |                     |                    |
| Offering costs                             | \$ 1,489            | \$ 2,577           |
| Non-capital loss carryovers                | 64,228              | 62,745             |
| Capital loss carryovers                    | 1,361               | 12,206             |
| Mine property costs                        | 10,883              | 10,840             |
| Reclamation costs                          | 3,225               | 1,226              |
| Derivatives                                | 2,664               | 4,288              |
| Other                                      | 887                 | 1,479              |
| Valuation allowance                        | (37,227)            | (39,240)           |
| <br>                                       |                     |                    |
| Future tax assets                          | \$ 47,510           | \$ 56,121          |
| <br>                                       |                     |                    |
| <b>Future tax liabilities:</b>             |                     |                    |
| Mine property costs                        | \$ 81,870           | \$ 85,575          |
| Derivatives                                | 439                 | 388                |
| Conversion feature discount                | 529                 | 759                |
| Other                                      | 1,619               |                    |
| <br>                                       |                     |                    |
| Future tax liabilities                     | 84,457              | 86,722             |
| <br>                                       |                     |                    |
| <b>Net future tax assets/(liabilities)</b> | <b>\$ (36,947)</b>  | <b>\$ (30,601)</b> |

Reconciliation of net future tax assets/(liabilities) to Balance sheet:

|  |                    |                    |
|--|--------------------|--------------------|
| Current portion of future tax assets       |                    | 6,248              |
| Future tax assets                          | 6,657              | 8,223              |
| Current portion of future tax liability    | (1,450)            |                    |
| Future tax liability                       | (42,154)           | (45,072)           |
| <br>                                       |                    |                    |
| <b>Net future tax assets/(liabilities)</b> | <b>\$ (36,947)</b> | <b>\$ (30,601)</b> |

The composition of our valuation allowance by tax jurisdiction is summarized as follows:

|        | <b>2006</b> | <b>2005</b> |
|--------|-------------|-------------|
| Canada | \$ 24,692   | \$ 23,712   |
| France |             | 5,584       |
| Ghana  | 12,535      | 9,944       |

|                                  |           |           |
|----------------------------------|-----------|-----------|
| <b>Total valuation allowance</b> | \$ 37,227 | \$ 39,240 |
|----------------------------------|-----------|-----------|

During 2006 \$5.6 million of valuation allowance related to France was eliminated due to the deconsolidation of EURO.

The provision for income taxes includes the following components:

|         | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|---------|-------------|-------------|-------------|
| Current |             |             |             |
| Canada  | \$          | \$          | \$          |
| Foreign |             |             |             |
| Future  |             |             |             |
| Canada  | 4,926       | (4,926)     |             |
| Foreign | 1,112       | (8,004)     | (1,542)     |
| Total   | \$ 6,038    | \$ (12,930) | \$ (1,542)  |

A reconciliation of expected income tax on net income before minority interest at statutory rates with the actual expenses (recovery) for income taxes is as follows:

|   | <b>2006</b>     | <b>2005</b>        | <b>2004</b>       |
|---|-----------------|--------------------|-------------------|
| Net income /(loss) before minority interest       | \$ 71,521       | \$ (26,184)        | \$ 2,377          |
| Statutory tax rate                                | 32.5%           | 32.5%              | 32.1%             |
| Tax expense/(benefit) at statutory rate           | 23,258          | (8,515)            | 763               |
| Foreign tax rates                                 | (7,104)         | (3,296)            | (152)             |
| Change in tax rates                               | (2,634)         | 568                |                   |
| Non-taxable portion of capital (gains)/losses     | (5,555)         | 270                | 3,174             |
| Expired loss carryovers                           | 842             | 16,287             | 1,450             |
| Deconsolidation of EURO carryovers and tax basis  | (1,894)         |                    |                   |
| Ghana investment allowance                        |                 | (666)              | (316)             |
| Non-deductible stock option compensation          | 599             | 274                | 445               |
| Non-deductible expenses                           | 36              | 163                | 119               |
| Non-taxable income                                | (624)           |                    |                   |
| Tax loss of EURO shares                           |                 |                    | (2,898)           |
| Loss carryover not previously recognized          | (402)           | (444)              | 4,447             |
| Intercompany asset basis not deductible           |                 | 6,320              |                   |
| Ghana property basis not previously recognized    |                 | 862                | (2,733)           |
| Non-deductible Ghana property basis               | 2,213           | 597                |                   |
| Change in future tax assets due to exchange rates | (637)           | 238                | (3,919)           |
| Change in valuation allowance                     | (2,060)         | (25,588)           | (1,922)           |
| <b>Income tax expense /(recovery)</b>             | <b>\$ 6,038</b> | <b>\$ (12,930)</b> | <b>\$ (1,542)</b> |

During 2006, 2005 and 2004, we recognized \$4.2 million, \$0.3 million and \$6.4 million, respectively, of share offering costs. Shareholders' equity has been credited in the amounts of \$1.3 million, \$0.1 million and \$2.1 million for the tax benefits of these deductions; however a valuation allowance had been provided against their full amount. In addition, in 2005 we reported a \$2.9 million discount related to our convertible debt. Shareholders' equity has been charged in the amount of \$0.9 million for the associated tax expense. A \$0.4 million valuation allowance has been provided in shareholders' equity for the net tax impact of the share offering costs and discount items.

At December 31, 2006 we had tax pool and loss carryovers expiring as follows:

|      | <b>Canada</b> | <b>Ghana</b> |
|------|---------------|--------------|
| 2007 | \$ 356        |              |



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|            |  |           |            |
|------------|--|-----------|------------|
| 2008       |  | 1,897     |            |
| 2009       |  | 2,339     |            |
| 2010       |  | 1,099     |            |
| 2014       |  | 10,622    |            |
| 2015       |  | 5,969     |            |
| 2026       |  | 3,996     |            |
| Indefinite |  | 8,368     | \$ 222,732 |
| Total      |  | \$ 34,646 | \$ 222,732 |

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**18. Earnings per Common share**

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

|   | <b>For the years ended December 31,</b> |             |             |
|---|---|-------------|-------------|
|   | <b>2006</b>                             | <b>2005</b> | <b>2004</b> |
| Net income/(loss)                                   | \$ 64,689                               | \$ (13,531) | \$ 2,642    |
| Weighted average number of common shares (millions) | 207.5                                   | 143.6       | 138.3       |
| Dilutive securities:                                |   |             |             |
| Options   | 2.2                                     | 2.7         | 2.9         |
| Warrants  |   |             | 2.5         |
| Weighted average number of diluted shares           | 209.7                                   | 146.3       | 143.7       |
| Basic earnings/(loss) per share                     | \$ 0.312                                | \$ (0.094)  | \$ 0.019    |
| Diluted earnings/(loss) per share                   | \$ 0.308                                | \$ (0.092)  | \$ 0.018    |

**19. Supplemental cash flow information**

The following is a summary of non-cash transactions:

|  | <b>2006</b> | <b>2005</b> | <b>2004</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       |             |             |
| Investment in Goldfields Miniere S.A. <sup>(1)</sup>                           |             |             | 300         |
| Common shares issued to purchase Goldfields Miniere S.A                        |             |             | (300)       |
| Non-cash component of St. Jude Resources Ltd.                                  |             | 110,924     |             |
| Common shares, warrants and options issued to purchase St. Jude Resources Ltd. | \$          | \$(110,924) | \$          |

(1) Name changed to Golden Star Miniere SA

There was no cash paid for income taxes during 2006, 2005 and 2004. Cash paid for interest was \$4.0 million in 2006 \$3.1 million in 2005 and \$0.1 million in 2004. A total of \$0.1 million of depreciation was included in general and administrative costs or was capitalized into projects.

**20. 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. Previously Prestea Underground was included in the Other segment, in 2006 we have included Prestea Underground in the Bogoso/Prestea segment, 2005 and 2004 has been adjusted to reflect this change in the composition of our segments.

| As of and for the<br>year ended December 31, | Africa             |           |         | South<br>America | Corporate | Total      |
|--|--------------------|-----------|---------|------------------|-----------|------------|
|  | Bogoso/<br>Prestea | Wassa     | Other   |                  |           |            |
| 2006   |                    |           |         |                  |           |            |
| Revenues                                     | \$ 63,563          | \$ 59,262 | \$ 18   | \$ 4,254         | \$ 1,593  | \$ 128,690 |
| Interest expense                             | 786                | 779       |         | 281              |           | 1,846      |
| Income tax<br>expense/(recovery)             | 2,117              |           | (3,229) |                  | (4,926)   | (6,038)    |
| Net income/(loss)                            | 8,045              | (1,512)   | 2,586   | (3,981)          | 59,551    | 64,689     |
| Total assets                                 | 360,455            | 110,866   | 166,750 | 7,852            | 17,851    | 663,774    |
| 2005   |                    |           |         |                  |           |            |
| Revenues                                     | \$ 58,534          | \$ 31,405 | \$      | \$ 4,282         | \$ 1,244  | \$ 95,465  |
| Interest expense                             | 325                | 348       |         | 415              | 1,328     | 2,416      |
| Income tax<br>expense/(recovery)             | 4,848              |           |         | 3,156            | 4,926     | 12,930     |
| Net income/(loss)                            | 4,578              | (8,994)   | (20)    | (412)            | (8,683)   | (13,531)   |
| Total assets                                 | 168,166            | 103,506   | 175,232 | 10,604           | 107,095   | 564,603    |
| 2004   |                    |           |         |                  |           |            |
| Revenues                                     | \$ 61,002          | \$        | \$      | \$ 3,145         | \$ 882    | \$ 65,029  |
| Interest expense                             | 105                |           |         | 15               | 19        | 139        |
| Income tax<br>expense/(recovery)             | 1,542              |           |         |                  |           | 1,542      |
| Net income/(loss)                            | 12,533             | (168)     |         | 1,772            | (11,495)  | 2,642      |
| Total assets                                 | 105,624            | 70,681    | 15,753  | 817              | 59,285    | 252,160    |

## 21. Related parties

During 2006, we obtained legal services from a legal firm to which our Chairman is of counsel. The total cost of all services purchased during 2006 and 2005 was \$0.5 million and \$1.2 million, respectively. Our Chairman did not personally perform any legal services for us during 2006 or 2005 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.

## 22. 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 and debt. The fair value of cash and short-term investments, 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. See Note 11 for fair values of long term debt.

## 23. Subsequent Event

**Equity Offering** On March 1, 2007, we sold 21 million common shares at a price of \$3.60 per share resulting in \$75.6 million in gross proceeds. Net proceeds were \$72.2 million after deducting underwriting commissions but before deducting offering expenses. On March 9, 2007 the underwriters exercised their option to sell an additional 3.15 million common shares for additional gross proceeds of \$11.3 million. After deducting underwriting commissions, net proceeds from these additional shares were \$10.8 million. The proceeds will be used to purchase an interest in an electric power station in Ghana, for completion and start-up of the Bogoso sulfide expansion project, for a feasibility study and if warranted, development of the HBB Properties, and for general corporate and working capital

purposes.

On February 14, 2007 warrants to purchase 8.4 million common shares at a strike price of Cdn\$4.60 expired.

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**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.

We restated our US GAAP note to its financial statements for the years ended 2005 and 2004 to comply with US GAAP accounting for warrants to purchase common shares which have an exercise price in Canadian dollars. Under Canadian GAAP, warrants to purchase common shares are accounted for as a component of shareholders' equity. Under the Statement of Financial Accounting Standards 133, Accounting for Derivative Instruments and Hedging Activities, issuers that have warrants with an exercise price denominated in a currency other than the issuer's functional currency are required to treat the fair value of the warrants as a liability and to mark to market those warrants at the end of every period. The Company's functional currency is United States dollars.

**(a) Consolidated Balance Sheets in US GAAP**

|  | <b>As of December 31,</b> |                            |
|--|---------------------------|----------------------------|
|  | <b>2006</b>               | <b>2005<br/>(restated)</b> |
| <b>ASSETS</b>  |                           |                            |
| Current assets:  |                           |                            |
| Cash and cash equivalents                                      | \$ 27,108                 | \$ 89,709                  |
| Accounts receivable  | 8,820                     | 6,560                      |
| Inventories  | 45,475                    | 23,181                     |
| Future tax assets  |                           | 6,248                      |
| Fair value of derivatives                                      |                           | 1,220                      |
| Deposits   | 7,673                     | 5,185                      |
| Other current assets   | 1,458                     | 686                        |
| Total current assets   | 90,534                    | 132,789                    |
| Restricted cash  | 1,581                     | 3,865                      |
| Available-for-sale and long term investments (Notes d1 and d2) | 5,718                     | 15,182                     |
| Deferred exploration and development costs (Notes d3 and d4)   |                           |                            |
| Property, plant and equipment (Note d5)                        | 92,345                    | 83,813                     |
| Mine construction in progress                                  | 165,155                   | 36,706                     |
| Mining properties (Notes d3, d4 and d5)                        | 243,532                   | 237,153                    |
| Deferred stripping (Note d6)                                   |                           | 1,548                      |
| Future tax asset (Note d10)                                    | 6,657                     | 8,223                      |
| Other assets   | 573                       | 3,164                      |
| Total assets   | \$ 606,095                | \$ 522,443                 |
| <b>LIABILITIES</b>   |                           |                            |
| Current liabilities  | \$ 69,151                 | \$ 40,815                  |
| Long term debt (Note d8)                                       | 68,539                    | 66,632                     |
| Asset retirement obligations                                   | 16,034                    | 8,286                      |
| Future tax liability   | 42,154                    | 45,072                     |
| Fair value of long term derivatives (Note d7)                  | 2,897                     | 15,842                     |

|  |            |            |
|--|------------|------------|
| Total liabilities                                    | 198,775    | 176,647    |
| Minority interest                                    | 2,902      | 1,964      |
| Commitments and contingencies                        |            |            |
| <b>SHAREHOLDERS EQUITY</b>                           |            |            |
| Share capital (Note d8)                              | 524,239    | 523,696    |
| Contributed surplus (Note d10)                       | 9,048      | 4,419      |
| Accumulated comprehensive income and other (Note d2) | 7,034      | 9,495      |
| Deficit  | (135,903)  | (193,778)  |
| Total shareholders equity                            | 404,418    | 343,832    |
| Total liabilities and shareholders equity            | \$ 606,095 | \$ 522,443 |

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

|  | <b>For the years ended December 31,</b> |                                  |                                  |
|--|---|----------------------------------|----------------------------------|
|  | <b>2006</b>                             | <b>2005</b><br><b>(restated)</b> | <b>2004</b><br><b>(restated)</b> |
| Net income under Cdn GAAP  | \$ 64,689                               | \$(13,531)                       | \$ 2,642                         |
| Deferred exploration expenditures expensed per US GAAP<br>(Note d3 and d4)   | (15,911)                                | (14,597)                         | (5,735)                          |
| Impact of start-up accounting (Note d5)                                      | 1,738                                   | (4,888)                          |                                  |
| Write-off of deferred exploration properties (Note d3)                       | 1,847                                   | 1,403                            |                                  |
| Capitalized mine property acquisition cost expensed for US<br>GAAP (Note d4) |   |                                  | (6,799)                          |
| Derivative gain on non-US\$ warrants (Note d11)                              | 5,682                                   | 4,478                            | 56,854                           |
| Other (Notes d3)   | (28)                                    | 455                              |                                  |
| Net income/(loss) under US GAAP before minority interest                     | 58,017                                  | (26,680)                         | 46,962                           |
| Minority interest, as adjusted   | (142)                                   | 2,210                            | 746                              |
| Net income/(loss) under US GAAP  | 57,875                                  | (24,470)                         | 47,708                           |
| Other comprehensive income gain on marketable securities<br>(Note d2)        | 5,718                                   | 8,179                            |                                  |
| Comprehensive income/(loss)  | \$ 63,593                               | \$(16,291)                       | \$47,708                         |
| Basic net income/(loss) per share under US GAAP                              | \$ 0.279                                | \$ (0.170)                       | \$ 0.345                         |
| Diluted net income/(loss) per share under US GAAP                            | \$ 0.276                                | \$ (0.170)                       | \$ 0.327                         |

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

|  | <b>For the years ended December 31,</b> |                                  |                                  |
|--|---|----------------------------------|----------------------------------|
|  | <b>2006</b>                             | <b>2005</b><br><b>(restated)</b> | <b>2004</b><br><b>(restated)</b> |
| Cash provided by (used in):                      |   |                                  |                                  |
| Operating activities                             | \$(10,513)                              | \$ (27,530)                      | \$ 575                           |
| Investing activities                             | (76,211)                                | (38,899)                         | (95,113)                         |
| Financing activities                             | 24,123                                  | 143,261                          | 17,445                           |
| Increase/(decrease) in cash and cash equivalents | (62,601)                                | 76,832                           | (77,093)                         |
| Cash and cash equivalent beginning of period     | 89,709                                  | 12,877                           | 89,970                           |
| Cash and cash equivalents end of period          | \$ 27,108                               | \$ 89,709                        | \$ 12,877                        |

**(d) Notes.**

(1) Under US GAAP, minority investments in entities whose major business is mineral exploration are deemed 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 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.
- (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 bankable 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 to be 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 intended product. Under Cdn GAAP new production facilities are placed in service when output reaches a significant portion of the facility's design capacity. As such, the new Wassa mine and processing operation was placed in service on January 1, 2005 for US GAAP purposes and was placed in service on April 1, 2005 for Cdn GAAP purposes. All operating expenses, including ARO accretion, depreciation, depletion and amortization and work in process inventory adjustments were recognized in the statement of operations for US GAAP during the first quarter of 2005 while such costs were capitalized net of revenues generated for Cdn GAAP.
- (6) Under US GAAP deferred stripping should be expensed and transition provisions allow any remaining balances in deferred stripping asset accounts to be closed directly to retained earnings on January 1, 2006. Under Cdn GAAP deferred stripping could be retained as an acceptable accounting method in Canada under certain circumstances. We did not defer any additional production phase stripping costs as of January 1, 2006 for both US and Cdn GAAP and therefore have a zero balance for deferred stripping at December 31, 2006 for both US and Cdn GAAP.
- (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 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; (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 as a derivative liability.
- (11) Under US GAAP the change in fair value of warrants denominated in currencies other than US\$ is recognized in the Statement of Operations. Under Cdn GAAP warrants are not marked to fair value.
- (12) Impact of Recently Issued Accounting Standards.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* an amendment of FASB Statements No. 133 and 140. This Statement, among other things, allows a preparer to elect fair value measurement of instruments in cases in which a derivative would otherwise have to be bifurcated. The provisions of this Statement are effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. We do not believe that the adoption of this Statement in fiscal 2007 will have a material impact on our consolidated financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets-an amendment of FASB Statement No. 140*. This Statement amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. The provisions of this Statement are effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. We do not believe that the adoption of this Statement in fiscal 2007 will have a material impact on our consolidated financial position or results of operations.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48) which prescribes a recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing and measuring uncertain tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income taxes assets and liabilities. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is required to be recognized as a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. We are currently evaluating the impact of adopting the provisions of FIN 48 in fiscal 2008.

In September 2006 FASB issued SFAS No. 157, *Fair Value Measurement* define fair value, establish a framework for measuring fair value and to expand disclosures about fair value measurements. The statement only applies to fair value measurements that are already required or permitted under current accounting standards and is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of this Interpretation to have a significant effect on the company's results of operations or financial position.

## 25. Quarterly Financial Data (Unaudited)

| (\$ millions, except per share data) | 2006 Quarters ended <sup>2</sup> |          |         |         | 2005 Quarters ended <sup>1</sup> |           |           |           |
|--------------------------------------|----------------------------------|----------|---------|---------|----------------------------------|-----------|-----------|-----------|
|                                      | Dec. 31                          | Sept. 30 | Jun. 30 | Mar. 31 | Dec. 31                          | Sept. 30  | Jun 30    | Mar . 31  |
| Revenues                             | \$ 33.2                          | \$ 36.6  | \$ 31.5 | \$ 27.4 | \$ 27.7                          | \$ 24.7   | \$ 24.9   | \$ 18.1   |
| Net income/(loss)                    | 30.8                             | 1.5      | 13.1    | 19.3    | (1.0)                            | (6.7)     | (3.7)     | (2.2)     |
| Net earnings/(loss) per share        |                                  |          |         |         |                                  |           |           |           |
| Basic                                | \$0.148                          | \$0.007  | \$0.063 | \$0.093 | \$(0.007)                        | \$(0.047) | \$(0.026) | \$(0.016) |
| Diluted                              | \$0.146                          | \$0.007  | \$0.063 | \$0.092 | \$(0.007)                        | \$(0.047) | \$(0.026) | \$(0.016) |

(1) Quarters one, two and three of 2005 have been restated as if hedge accounting had

not been applied to EURO's gold futures contracts. EURO did not apply hedge accounting to quarter four and thus it is not restated.

- (2) Reflect the restatement of in-process metals inventories for quarters one, two and three.

**26. Measurement Uncertainty**

The carrying value of the assets in respect of the Wassa mine was \$95.1 million as at December 31, 2006. The valuation of the Wassa mine is highly sensitive to assumptions regarding the price of gold and the number of ounces expected to be produced. As at December 31, 2006, the impairment analysis incorporated the following key assumptions:

Gold prices per ounce of \$650 in 2007, \$638 in 2008, \$592 in 2009, and \$562 in 2010 and 2011.

Approximately one third of the non-reserve resources would eventually be found economic and would be mined and processed.

Based on these assumptions, the Wassa mine was not impaired based on the projected undiscounted cash flows of the mine.

**ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

1. The following documents are filed as part of this Report:

1. Financial Statements

Management's Report

Auditors' Report

Consolidated Balance Sheets as of December 31, 2006 and 2005

Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

Notes to the Consolidated Financial Statements

2. Financial Statement Schedules

Financial Statement schedules have been omitted since they are either not required, are not applicable, or the required information is shown in the financial statements or related notes.

3. Exhibits

- 3(i) Incorporating Documents of the Company, including: Articles of Arrangement dated May 14, 1992, with Plan of Arrangement attached, with Certificate of Amendment with respect thereto dated May 15, 1992; Certificate of Amendment dated May 15, 1992, with Articles of Amendment; Certificate of Amendment dated March 26, 1993, with Articles of Amendment; Articles of Arrangement dated March 7, 1995, with Plan of Arrangement attached, with Certificate of Amendment with respect thereto dated March 14, 1995; Certificate of Amendment dated July 29, 1996, with Articles of Amendment; and Certificate of Amendment dated July 10, 2002, with Articles of Amendment (all incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on January 23, 2003); Articles of Amendment dated May 6, 2005 (incorporated by reference to the Company's Form 10-K for the year ended December 31, 2006)
- 3(ii) Bylaws of the Company, including: Bylaw Number One, amended and restated as of April 3, 2002 (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3 (Reg. No. 333-102225) filed on December 27, 2002); Bylaw Number Two, effective May 15, 1992 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed on January 23, 2003); and Bylaw Number Three, effective May 15, 1992 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed on January 23, 2003)
- 4.1 Form of Specimen Certificate for Common Shares (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3/A (Reg. No. 333-91666) filed on July 15, 2002)
- 4.2 Amended and Restated Shareholder's Rights Plan dated as of May 20, 2004 between the Company and CIBC Mellon Trust Company, as rights agent (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed June 3, 2004)
- 4.3 Securities Purchase Agreement dated April 15, 2005 between the Company and Amaranth LLC (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on April 19, 2005)
- 4.4 Form of Senior Convertible Note dated April 15, 2005 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed on April 19, 2005)
- 4.5 Amendment No. 1 dated January 29, 2007 to Senior Convertible Notes issued April 15, 2005. (incorporated by reference to the Company's Form 10-K for the year ended December 31, 2006)
- 4.6 Registration Rights Agreement dated April 15, 2005 between the Company and Amaranth LLC (incorporated by reference to Exhibit 4.3 to the Company's Form 8-K filed on April 19, 2005)
- 4.7 Form of Warrant issued to warrant holders of St. Jude Resources Ltd. (incorporated by reference to Exhibit 4.14 to the Company's Form 10-K for the year ended December 31, 2005)
- 4.8 Form of Option issued to option holders of St. Jude Resources Ltd. (incorporated by reference to Exhibit 4.15 to the Company's Form 10-K for the year ended December 31, 2005)
- 10.1 Summary of Executive Management Performance Bonus Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on January 23, 2003)
- 10.2 Second Amended and Restated 1997 Stock Option Plan, effective as of April 8, 2004 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-K for the year ended December 31, 2004)

- 10.3 Form of Indemnification Agreement between the Company and its officers and directors (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed on January 23, 2003)
- 10.4 Employees' Stock Bonus Plan amended and restated to April 6, 2000 (incorporated by reference to Exhibit 10(j) to the Company's Form 10-K for the year ended December 31, 2000)
- 10.5 Guyanor Ressources S.A. Stock Option Plan amended and restated as of June 15, 1999 (English translation) (incorporated by reference to Exhibit 10.35(a) to the Company's Form 10-K for the year ended December 31, 1999)
- 10.6 Amended and Restated Employment Agreement with Mr. Peter Bradford dated April 30, 2004 (incorporation by reference to Exhibit 10.7 to the Company's Form 10-K for the year ended December 31, 2004); Letter Agreement amending Mr. Bradford's Amended and Restated Employment Agreement dated February 3, 2005 (incorporated by reference to the Company's Form 10-K for the year ended December 31, 2004)
- 10.7 Amended and Restated Employment Agreement with Mr. Allan J. Marter dated April 30, 2004 (incorporation by reference to Exhibit 10.8 to the Company's Form 10-K for the year ended December 31, 2004)

- 10.8 Severance and Release Agreement between the Company and Mr. Allan J. Marter dated October 13, 2006 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 2006)
- 10.9 Amended and Restated Employment Agreement with Dr. Douglas Jones dated April 30, 2004 (incorporation by reference to Exhibit 10.9 to the Company's Form 10-K for the year ended December 31, 2004)
- 10.10 Amended and Restated Employment Agreement with Mr. Bruce Higson-Smith dated April 30, 2004 (incorporation by reference to Exhibit 10.10 to the Company's Form 10-K for the year ended December 31, 2004)
- 10.11 Amended and Restated Employment Agreement with Mr. Richard Q. Gray dated April 30, 2004 (incorporation by reference to Exhibit 10.11 to the Company's Form 10-K for the year ended December 31, 2004)
- 10.12 Employment Agreement with Mr. Colin Belshaw dated June 17, 2006 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 30, 2006)
- 10.13 Employment Agreement with Mr. Thomas G. Mair dated February 8, 2007 (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on February 14, 2007)
- 10.14 Agreements between the Company and its outside directors granting them options to purchase Guyanor Class B common shares, (1) dated December 8, 1995, and December 10, 1996 (incorporated by reference as Exhibit 10.39 to the Company's Form 10-K for the year ended December 31, 1996), (2) dated December 9, 1997 (incorporated by reference to Exhibit 10.39(a) to the Company's Form 10-K for the year ended December 31, 1997), (3) dated December 8, 1998 (incorporated by reference to Exhibit 10.39(b) to the Company's Form 10-K for the year ended December 31, 1998), (4) dated June 15, 1999 (incorporated by reference to Exhibit 10.39(c) to the Company's Form 10-K for the year ended December 31, 1999), and (5) dated August 16, 2001 (incorporated by reference to Exhibit 10.11 to the Company's Form 10-K for the year ended December 31, 2002)
- 10.15 Agreement, dated November 16, 2001, between Bogoso Gold Limited and Prestea Gold Resources Limited for the purchase of Prestea mining lease rights and option payments (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on March 6, 2002)
- 10.16 Guiana Shield Transaction Agreement with Cambior Inc. dated October 25, 2001 for the sale and swap of Golden Star's interest in Gross Rosebel and other properties (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed March 6, 2002)
- 10.17 Mining lease, dated August 16, 1988, between the Government of the Republic of Ghana and Canadian Bogosu Resources Limited, relating to the Bogoso property (incorporated by reference to Exhibit 10.14 to the Company's Form 10-K for the year ended December 31, 2005)
- 10.18 Mining lease, dated August 21, 1987, between the Government of the Republic of Ghana and Canadian Bogosu Resources Limited, relating to the Bogoso property (incorporated by reference to Exhibit 10.15 to the Company's Form 10-K for the year ended December 31, 2005)
- 10.19

Mining lease, dated June 29, 2001, between the Government of the Republic of Ghana and Bogoso Gold Limited, relating to the Prestea property (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on March 6, 2002)

- 10.20 Mining lease, dated September 17, 1992 between the Government of the Republic of Ghana and Satellite Goldfields Limited, with letter dated April 25, 2002 from the Ministry of Mines consenting to assignment to Wexford Goldfields Ltd., relating to the Wassa property (incorporation by reference to Exhibit 10.26 to the Company's Form 10-K for the year ended December 31, 2004)
- 10.21 Mining lease dated June 29, 2001, between the Government of the Republic of Ghana and Prestea Gold Resources, relating to the Prestea Underground property (incorporation by reference to Exhibit 10.27 to the Company's Form 10-K for the year ended December 31, 2004)
- 10.22 Joint Operating Agreement, dated January 31, 2002, between Bogoso Gold Limited and Prestea Gold Resources Limited (incorporated by reference to Exhibit 10.25 to the Company's Form 10-K for the year ended December 31, 2002)
- 10.23 Memorandum of Agreement, dated March 14, 2002, among Prestea Gold Resources, Bogoso Gold Limited and others (incorporated by reference to Exhibit 10.26 to the Company's Form 10-K for the year ended December 31, 2002)
- 10.24 Letter agreement between the Company and Guyanor Ressources S.A. dated September 30, 2004 relating to sale of Gross Rosebel Participation Right (incorporated by reference to Exhibit 10.30 to the Company's



Form 10-K for the year ended December 31, 2004)

- 10.25 Arrangement Agreement dated November 11, 2005 between the Company and St. Jude Resources Ltd. (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on November 17, 2005)
- 10.26 Executive Employment Agreement, dated July 1, 2002, between St. Jude Resources Ltd. and Bluestar Management Inc. (incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the year ended December 31, 2005)
- 10.27 License Agreement, dated June 28, 2004 between Biomin Technologies S. A. and Bogoso Gold Limited (incorporated by reference to Exhibit 10.24 to the Company's Form 10-K for the year ended December 31, 2005)
- 10.28 EPCM Services Agreement, dated April 16, 2006, between Bogoso Gold Limited, GRD Minproc (Pty) Limited and GRD Minproc Limited (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 2006)
- 10.29 Medium Term Loan Agreement, dated October 11, 2006 between Ghana Limited, Cal Bank Ghana Limited and the Company (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended September 30, 2006)
- 14 Code of Ethics for Directors, Senior Executive and Financial Officers and Other Executive Officers (incorporated by reference to Exhibit 14 to the Company's Form 10-K for the year ended December 31, 2005)
- 21 Subsidiaries of the Company (incorporated by reference to Exhibit 21 to the Company's Form 10-K for the year ended December 31, 2006)
- 23.1 Consent of PricewaterhouseCoopers LLP
- 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)

**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-K/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: July 23, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

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**EXHIBIT INDEX**

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