GOLDEN STAR RESOURCES LTD
Form 10-Q
May 09, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

OR

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

Commission file number 1-12284

GOLDEN STAR RESOURCES LTD.

(Exact Name of Registrant as Specified in Its Charter)

Canada	**98-0101955**
(State or other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

10901 West Toller Drive, Suite 300

Littleton, Colorado	**80127-6312**
(Address of Principal Executive Office)	**(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 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 x No ¨

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

Large accelerated filer: ¨ Accelerated filer: x 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 x

Number of Common Shares outstanding as at May 9, 2007: 233,190,824

REPORTING CURRENCY, FINANCIAL AND OTHER INFORMATION

All amounts in this report are expressed in United States (US) dollars, unless otherwise indicated. Canadian currency is denoted as Cdn$.

Financial information is presented in accordance with accounting principles generally accepted in Canada (Cdn GAAP or Canadian GAAP). Differences between accounting principles generally accepted in the US (US GAAP) and those applied in Canada, as applicable to Golden Star Resources Ltd., are explained in Note 25 to the Consolidated Financial Statements.

References to Golden Star, the Company, we, our, and us mean Golden Star Resources Ltd., its predecessors and consolidated subsidiaries, o any one or more of them, as the context requires.

NON-GAAP FINANCIAL MEASURES

In this Form 10-Q, we use the terms total cash cost per ounce and cash operating cost per ounce which are considered Non-GAAP financial measures as defined in SEC Regulation S-K Item 10 and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. See Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations for a definition of these measures as used in this Form 10-Q.

STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This Form 10-Q contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to our financial condition, results of operations, business prospects, plans, objectives, goals, strategies, future events, capital expenditures, and exploration and development efforts. Words such as anticipates, expects, intends, forecasts, plans, believes, seeks, estimates, may, will, and similar expressions identify forward-l

Although we believe that our plans, intentions and expectations reflected in these forward-looking statements are reasonable, we cannot be certain that these plans, intentions or expectations will be achieved. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this Form 10-Q.

These statements include comments regarding: the completion, commissioning and commencement of production of the Bogoso sulfide expansion project and its anticipated throughput and metallurgical recoveries, anticipated commencement dates of production, development costs, production capacity, production rates, and production costs; cash operating costs; gold sales; mining operations and recovery rates; ore delivery; ore processing; potential mine life; permitting; establishment and estimates of mineral reserves and resources; geological, environmental, and engineering studies; timing and results of feasibility studies; exploration efforts and activities; availability, cost and efficiency of mining equipment; ore grades; reclamation work; identification of acquisition and growth opportunities; power costs, the ability to meet total power requirements and the acquisition and operation of the power station; retention of earnings from our operations; sale of our remaining EURO Ressources S.A. common shares; sources of and adequacy of liquidity to meet capital and other needs in 2007.

The following, are among the factors that could cause actual results to differ materially from the forward-looking statements:

The following, in addition to the factors described under Risk Factors in Item 1 of our December 31, 2006 Form 10-K, are among the factors that could cause actual results to differ materially from the forward-looking statements:

- significant increases or decreases in gold prices;

failure to develop Mineral Reserves on the HBB Properties or failure to expand Mineral Reserves around our existing mines;

unexpected events during the construction and start-up of the Bogoso sulfide expansion project;

unexpected changes in business and economic conditions;

inaccuracies in Mineral reserves and non-reserves estimates;

changes in interest and currency exchange rates;

timing and amount of gold production;

unanticipated variations in ore grade, tonnes mined and crushed or milled;

unanticipated recovery or production problems;

effects of illegal mining on our properties;

changes in mining and processing costs, including changes to costs of raw materials, supplies, services and personnel;

changes in metallurgy and processing;

availability of skilled personnel, contractors, materials, equipment, supplies, power and water;

changes in project parameters or mine plans;

costs and timing of development of new reserves;

weather, including continuing drought in West Africa;

global warming and its impacts on climate and regulatory frameworks that may impact our activities directly or directly;

results of current and future exploration activities;

results of pending and future feasibility studies;

- acquisitions and joint venture relationships;
- political or economic instability, either globally or in the countries in which we operate;
- changes in regulations affecting our operations, particularly in Ghana, where our principal producing properties are located;
- local and community impacts and issues;
- availability and cost of replacing reserves;
- timing of receipt and maintenance of government approvals and permits;
- unanticipated transportation costs and shipping incidents and losses;
- accidents, labor disputes and other operational hazards;
- environmental costs and risks;
- unanticipated title issues;
- competitive factors, including competition for property acquisitions;
- possible litigation; and
- availability of capital at reasonable rates or at all.

These factors are not intended to represent a complete list of the general or specific factors that could affect us. We undertake no obligation to update forward-looking statements.

PART I

ITEM 1. FINANCIAL STATEMENTS

GOLDEN STAR RESOURCES LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Stated in thousands of US dollars except shares issued and outstanding)

(Unaudited)

	As of March 31, 2007	As of December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 19,937	$ 27,108
Short term investments (Note 3)	47,000	
Accounts receivable	8,990	8,820
Inventories (Note 4)	51,335	45,475
Future tax assets	162	
Deposits (Note 5)	10,437	7,673
Prepaids and other	1,167	1,458
Total Current Assets	139,028	90,534
RESTRICTED CASH	1,581	1,581
AVAILABLE-FOR-SALE INVESTMENTS (Note 6)	6,308	1,457
DEFERRED EXPLORATION AND DEVELOPMENT COSTS (Note 7)	168,969	167,983
PROPERTY, PLANT AND EQUIPMENT (Note 8)	96,375	93,059
MINING PROPERTIES (Note 9)	137,763	136,775
CONSTRUCTION IN PROGRESS (Note 10)	184,518	165,155
FUTURE TAX ASSETS	7,207	6,657
OTHER ASSETS		573
Total Assets	$ 741,749	$ 663,774
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 15,354	$ 19,012
Accrued liabilities	25,355	25,516
Fair value of derivatives (Note 12)	186	685
Asset retirement obligations (Note 13)	2,948	3,064
Current portion of future tax liability		1,450
Current debt (Note 11)	13,096	12,549
Total Current Liabilities	56,939	62,276
LONG TERM DEBT (Note 11)	70,166	73,786
ASSET RETIREMENT OBLIGATIONS (Note 13)	16,301	16,034
FUTURE TAX LIABILITY	42,113	42,154
Total liabilities	185,519	194,250

MINORITY INTEREST	7,361	7,424
COMMITMENTS AND CONTINGENCIES (Note 14)		
SHAREHOLDERS EQUITY		
SHARE CAPITAL (Note 15)		
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: 233,094,824 at March 31, 2007 207,891,358 at December 31, 2006	608,441	524,619
CONTRIBUTED SURPLUS	11,870	10,040
EQUITY COMPONENT OF CONVERTIBLE NOTES	2,857	2,857
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 18)	4,682	
DEFICIT	(78,981)	(75,416)
Total Shareholders Equity	548,869	462,100
Total Liabilities and Shareholders Equity	$ 741,749	$ 663,774

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

GOLDEN STAR RESOURCES LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Stated in thousands of US dollars except per share amounts)

(Unaudited)

	Three months ended March 31, 2007	2006 (Restated)
REVENUE		
Gold sales	$ 29,861	$ 24,936
Royalty income		1,837
Interest and other	505	619
Total revenues	30,366	27,392
PRODUCTION EXPENSES		
Mining operations	25,356	23,018
Depreciation, depletion and amortization	7,657	5,577
Accretion of asset retirement obligation (Note 13)	313	168
Total mine operating costs	33,326	28,763
OPERATING EXPENSES		
Exploration expense	784	212
General and administrative expense	4,623	2,755
Corporate development expense	57	
Total production and operating expenses	38,790	31,730
Operating loss	(8,424)	(4,338)
OTHER EXPENSES, GAINS AND (LOSSES)		
Gain on sale of investment (Note 6)	3,543	30,294
Derivative mark-to-market loss (Note 12)	(294)	(8,670)
Interest expense	(427)	(471)
Foreign exchange gain/(loss)	(229)	1,121
Income/(loss) before minority interest	(5,831)	17,936
Minority interest	63	176
Net income/(loss) before income tax	(5,768)	18,112
Income tax recovery (Note 19)	2,203	1,211
Net income/(loss)	**$ (3,565)**	**$ 19,323**
OTHER COMPREHENSIVE INCOME/(LOSS)		
Unrealized loss on available-for-sale investments (Note 18)	(465)	
Comprehensive income/(loss)	**$ (4,030)**	**$ 19,323**
Deficit, beginning of period	(75,416)	(140,105)

Deficit, end of period	$	(78,981)	$	(120,782)
Net income/(loss) per common share basic (Note 20)	$	(0.016)	$	0.093
Net income/(loss) per common share diluted (Note 20)	$	(0.016)	$	0.092
Weighted average shares outstanding (millions of shares)		216.2		206.8

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

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GOLDEN STAR RESOURCES LTD.

CONSOLIDATED BALANCE SHEETS

(Stated in thousands of US dollars)

(Unaudited)

	For the three months ended March 31, 2007	2006 (Restated)
OPERATING ACTIVITIES:		
Net income/(loss)	$ (3,565)	$ 19,323
Reconciliation of net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	7,686	5,593
Amortization of loan acquisition cost	64	65
Deferred stripping		516
Gain on sale of investment	(3,543)	(30,294)
Non-cash employee compensation	2,019	897
Income tax expense/(benefit)	(2,203)	(902)
Reclamation expenditures (Note 13)	(162)	(185)
Fair value of derivatives	(499)	7,703
Accretion of convertible debt	178	177
Accretion of asset retirement obligations (Note 13)	313	168
Minority interests	(63)	(176)
	225	2,885
Changes in assets and liabilities:		
Accounts receivable	(170)	(1,331)
Inventories	(6,840)	(3,602)
Deposits	(1,284)	(1,099)
Accounts payable and accrued liabilities	(543)	(2,420)
Other	291	(125)
Net cash used in operating activities	(8,321)	(5,692)
INVESTING ACTIVITIES:		
Expenditures on deferred exploration and development	(986)	(2,137)
Expenditures on mining properties	(4,514)	(3,004)
Expenditures on property, plant and equipment	(6,495)	(6,884)
Expenditures on mine construction in progress	(19,467)	(24,619)
Cash invested in short term investments	(47,000)	
Cash provided by draw down of restricted cash		184
Proceeds from sale of investments	3,543	37,296
Change in payable on capital expenditures	(3,276)	5,437
Long term investments	(169)	
Deposits	(1,481)	(9,206)
Other		52
Net cash used in investing activities	(79,845)	(2,881)

FINANCING ACTIVITIES:

Issuance of share capital, net of issue costs		83,634		2,154
Debt repayments		(2,639)		(1,721)
Issuance of debt				5,453
Other				(149)
Net cash provided by financing activities		80,995		5,737
Increase/(decrease) in cash and cash equivalents		(7,171)		(2,836)
Cash and cash equivalents, beginning of period		27,108		89,709
Cash and cash equivalents end of period	$	19,937	$	86,873

(See Note 21 for supplemental cash flow information)

The accompanying notes are an integral part of the consolidated 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)

(Unaudited)

These consolidated financial statements and the accompanying notes are unaudited and should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our annual report on Form 10-K for the year ended December 31, 2006, on file with Securities and Exchange Commission and with the Canadian securities commissions. Financial information is presented in accordance with accounting principles generally accepted in Canada. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Cdn GAAP). For reconciliation to accounting principles generally accepted in the United States (US GAAP), see Note 25 to the consolidated financial statements.

In early 2007, errors were discovered related to the computation of ore stockpile and in-process inventory balances and associated Mining operations costs as found on the statement of operations. The corrections also impacted the minority interest account and various tax accounts on the balance sheets and in the statement of operations as well as our non-GAAP measures cash and operating costs per ounce and total cash cost per ounce. As a result the Company restated its interim consolidated financial statements for the quarters ended March 31, June 30 and September 30, 2006. In addition, the US GAAP footnotes in our March 31, June 30 and September 30, 2006 Forms 10-Q were restated to correct errors in accounting for warrants denominated in Cdn dollars. Specifically, these warrants had been treated as equity instruments in our Form 10-Qs but were restated to recognize that these warrants are derivative instruments. In this Form 10-Q, comparative amounts from the first quarter of 2006 reflect these restatements.

In management s opinion, the unaudited consolidated financial statements for the three months ended March 31, 2007 contained herein reflect all adjustments, consisting solely of normal recurring items, which are necessary for the fair presentation of financial position, results of operations and cash flows on a basis consistent with that of our prior audited consolidated financial statements except for the change in accounting policy from January 1, 2007 as discussed in note 2.

All financial amounts are in thousands of US Dollars unless noted otherwise.

1. Description of Business

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

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

Wassa property (Wassa),

Prestea Underground property (Prestea Underground), 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 approximately 103,800 ounces of gold in 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. Wassa produced and sold approximately 97,600 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 reconditioning certain shafts to allow better access to the underground workings. We are also 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 70 and 40 kilometers south of Wassa, respectively.

We hold interests in several gold exploration projects in Ghana and elsewhere in West Africa including Sierra Leone, Burkina Faso, Niger and Cote d Ivoire. We also hold and manage exploration properties in Suriname and French Guiana in South America. We hold indirect interests in gold exploration properties in Peru, Argentina and Chile through a 8.1% shareholding investment in Minera IRL (formerly known as Goldmin Consolidated Holdings).

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. Changes in accounting policy Financial Instruments

Effective January 1, 2007, the Company adopted CICA Handbook Section 3855 Financial Instruments Recognition and Measurement, Section 3865 Hedges and Section 1530 Comprehensive Income (the Financial Instrument Standards). The adoption of these new standards had no impact on the Company s financial statements on or before December 31, 2006 as the standards require adjustments to the carrying value of financial assets and liabilities to be recorded within retained earnings or, in the case of available-for-sale assets, accumulated other comprehensive income on transition.

All financial assets, and derivative financial instruments, are measured at fair value.

Gains and losses associated with financial assets designated as held-for-trading are recorded in the income statement, separate from any interest or dividends earned on these investments. Gains and losses on derivative financial instruments are also recorded in the statement of operations in the period in which they arise. Gains and losses associated with financial assets classified as available-for-sale will be separately recorded as unrealized within other comprehensive income until such time the investment is disposed of or incurs a decline in fair value that is on an other-than-temporary basis, at which time any gains or losses will then be realized and reclassified as a component of net income.

Financial liabilities are measured initially at fair value including any directly attributable transaction costs. After initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method.

The Company currently does not apply hedge accounting to its derivative instruments and accordingly is currently not impacted by CICA 3865 Hedges.

Upon adoption of the Financial Instrument Standards, all regular-way purchases of financial assets are accounted for at the settlement date. Transaction costs on financial assets and liabilities classified other than as held for trading are treated as part of the initial fair value.

3. Short term investments

Short term investments are comprised of funds invested in AAA (or equivalent) rated auction rate certificates. The certificates are short term positions in long term securities. The interest rate is reset every 7, 28 or 35 days, and the certificates can be liquidated for cash at each interest rate reset date.

4. Inventories

	As of March 31, 2007	As of December 31, 2006
Stockpiled ore	$ 17,608	$ 18,244
In-process	7,292	4,596
Materials and supplies	26,435	22,635
Total	$ 51,335	$ 45,475

5. Deposits

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

6. Available-for-sale investments

	As of March 31, 2007,		As of December 31, 2006,	
	Shares	Fair value	Shares	Cost
Minera IRL	5,012,800	$ 4,459	4,820,000	$ 1,457
EURO Ressources	1,256,277	1,849	3,009,679	
Total		$ 6,308		$ 1,457

Investment in Minera IRL

We hold a 8.1% interest in Minera IRL, a gold exploration company which operates in South America. During the year ended December 31, 2006, Minera IRL was privately held and we accounted for our investment on the cost basis at $1.5 million. In late March 2007 Minera IRL completed their Initial Public Offering. The stock was listed as a public company on the Alternative Investment Market in London in early April 2007. Since January 1, 2007 we have accounted for our investment in Minera IRL at fair value as required by CICA 3855 Financial Instruments (effective for fiscal years beginning after October 1, 2006). The increase in the fair value from January 1, 2007 to March 31, 2007 of $0.1 million was recorded as other comprehensive income.

Investment in EURO Ressources S.A. (EURO)

During the year ended December 31, 2006 we sold approximately 22 million shares in EURO for net proceeds of $33.2 million, which decreased our holding in EURO from 53% to approximately 6% at December 31, 2006. During the quarter ended March 31, 2007 we sold an additional 1,753,402 EURO shares in a number of public transactions. The sale resulted in net proceeds of $2.8 million to Golden Star yielding a gain of $2.8 million.

Our investment in EURO was diluted to less than 20% in December 2006, and therefore we accounted for the investment on the cost basis at zero carrying value at December 31, 2006. 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. Since January 1, 2007 we have accounted for our investment in EURO at fair value as required by CICA 3855 Financial Instruments (effective for fiscal years beginning after October 1, 2006). The decrease in the fair value from January 1, 2007 to March 31, 2007 of $0.5 million was recorded as other comprehensive loss.

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Investment in Moto Goldmines Limited (Moto)

As of December 31, 2005 we held approximately 11% of the outstanding common shares of Moto, a gold exploration and development company publicly traded in Canada, with a focus on gold exploration and development in the Democratic Republic of Congo. In March 2006 we exercised our remaining one million warrants increasing our total ownership to six million common shares, and immediately afterward sold all six million common shares in a bought-deal transaction in Canada for Cdn$7.50 per share. The sale of the six million shares resulted in net proceeds to Golden Star of $39.0 million (Cdn$45.0 million) yielding a pre-tax capital gain of $30.3 million. A $4.9 million non-cash tax expense was recognized on the gain in 2006.

7. Deferred Exploration and Development Costs

Consolidated property expenditures on our exploration projects for the three months ended March 31, 2007 were as follows:

	Deferred exploration & development costs as of 12/31/06	Capitalized exploration expenditures	Deferred exploration & development costs as of 3/31/07
AFRICAN PROJECTS			
Akropong trend and other Ghana	$ 833	$ 3	$ 836
Hwini-Butre and Benso Ghana	142,715	489	143,204
Mano River Sierra Leone	2,015	385	2,400
Afema Ivory Coast	1,512		1,512
Goulagou Burkina Faso	18,789	53	18,842
Other Africa	1,082	54	1,136
SOUTH AMERICAN PROJECTS			
Saramacca Suriname	781	2	783
Other South America	256		256
Total	$ 167,983	$ 986	$ 168,969

8. Property, Plant and Equipment

	As of March 31, 2007			As of December 31, 2006		
	Property, Plant and Equipment at Cost	Accumulated Depreciation	Property, Plant and Equipment Net Book Value	Property, Plant and Equipment at Cost	Accumulated Depreciation	Property, Plant and Equipment, Net Book Value
Bogoso/Prestea	$ 58,288	$ 14,719	$ 43,569	$ 57,392	$ 13,263	$ 44,129
Prestea Underground	238		238	236		236
Wassa	55,983	9,313	46,670	55,785	7,618	48,167
Corporate & Other	6,339	441	5,898	924	397	527
Total	$ 120,848	$ 24,473	$ 96,375	$ 114,337	$ 21,279	$ 93,059

9. Mining Properties

	As of March 31, 2007			As of December 31, 2006		
	Mining Properties at Cost	Accumulated Amortization	Mining Properties, Net Book Value	Mining Properties at Cost	Accumulated Amortization	Mining Properties, Net Book Value
Bogoso/Prestea	$ 51,902	$ 33,545	$ 18,357	$ 51,868	$ 33,241	$ 18,627
Prestea Underground	30,062		30,062	28,891		28,891
Bogoso Sulfide	13,529		13,529	13,352		13,352
Mampon	15,771		15,771	15,721		15,721
Wassa	59,866	14,456	45,410	58,578	11,234	47,344
Other	14,634		14,634	12,840		12,840
Total	$ 185,764	$ 48,001	$ 137,763	$ 181,250	$ 44,475	$ 136,775

10. Construction-in-progress

At March 31, 2007 and at December 31, 2006, 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 March 31, 2007	As of December 31, 2006
Plant construction cost	$ 131,352	$ 118,826
Mining equipment cost	10,637	10,505
Pre-production stripping cost	27,250	22,397
Sub-total	169,239	151,728
Costs prior to project commencement	7,216	7,216
Capitalized Interest	8,063	6,211
Total	$ 184,518	$ 165,155

11. Debt

	As of March 31, 2007	As of December 31, 2006
Current debt:		
Debt facility (Note a)	$ 7,354	$ 6,875
Equipment financing loans (Note b)	5,742	5,674
Total current debt	13,096	12,549
Long term debt:		
Debt facility (Note a)	6,211	8,125
Equipment financing loans (Note b)	15,832	17,288
Convertible notes (Note c)	48,123	48,373
Total long term debt	$ 70,166	$ 73,786

(a) Debt facility On October 11, 2006, GSBPL entered into an agreement for a $15.0 million debt facility with two Ghana-based banks. 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 were used for construction costs of the Bogoso sulfide expansion project. There are no hedging requirements or equity-type incentives required under the facility. A total of $0.7 million of interest on the debt facility has been capitalized to the Bogoso Sulfide Expansion Project. Loan fees totaling approximately $0.3 million were deducted from the liability in arriving at amortized cost and are being amortized using the effective interest rate method. As of December 31, 2006 the unamortized loan fees of $0.2 million were included in other assets, since January 1, 2007, in accordance with CICA 3855- Financial instruments the unamortized portion of the loan fees are deducted from the value of the notes.

(b) 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. 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 March 31, 2007, $21.6 million was outstanding under this facility. The average interest rate on the outstanding loans is approximately 6.7%.

(c) Convertible notes We sold $50 million of senior unsecured convertible notes to a private investment fund on April 15, 2005. These notes were issued at par and bear interest at 6.85%. 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 cash, common shares, or 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. 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 $7.4 million of interest on the convertible notes has been capitalized to the Bogoso Sulfide Expansion Project. Loan fees totaling approximately $0.9 million were capitalized and are being amortized over the term of the notes. As of December 31 2006, the unamortized loan fees of $0.6 million were included in other assets. Since January 1, 2007, in accordance with CICA 3855 Financial Instruments, the unamortized portion of the loan fees are deducted from the value of the notes. Certain covenants of the convertible notes were amended in April of 2007 which did not increase our covenanted borrowing limit but give us more flexibility over the types of borrowing allowed within the covenant limit.

12. Derivatives

Gold Derivatives To provide gold price protection during the 2005 to 2007 construction phase of the Bogoso Sulfide Expansion Project, we purchased a series of gold puts and calls with expiry dates spread between the second quarter 2005 and March 31, 2007. During the first quarter of 2007 we settled our remaining 37,500 ounces of gold put options for $0.8 million and a resulting derivative loss of $0.1 million due to increased gold prices since December 31, 2006.

At December 31, 2006 we had 6,000 ounces of gold call options, all which expired unexercised at March 31, 2007. There was no financial impact from the expiry because all of the purchase cost was recognized in earlier periods. All of our puts and calls expired or were repurchased by March 2007 and we currently have no gold derivatives.

EURO Options During the first quarter of 2007 we renegotiated sections of certain prior agreements with EURO including the timing and amounts of possible future royalty payments and the amount and timing of certain commitments under exploration property earn-ins. In addition, and as part of these renegotiations, we have agreed to make an additional number of our remaining EURO shares available to EURO to deliver against certain options EURO has granted or plans to grant to its directors. This brings the number of our shares in EURO which are subject to option agreements to 590,000.

As a result of this agreement we recorded a derivative liability to recognize the cost of the EURO shares that we may give up in the future. At the end of March 2007 the derivative liability was $0.2 million based on the fair value of the outstanding options.

13. Asset Retirement Obligations

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

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

Balance at December 31, 2006	$ 19,098
Accretion expense	313
Cost of reclamation work performed	(162)
Balance at March 31, 2007	$ 19,249
Current portion	$ 2,948
Long term portion	$ 16,301

14. Commitments and Contingencies

Our commitments and contingencies include the following items:

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.

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.

Royalties

- 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.
- 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.

- 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.
- Pampe: Portions of the Pampe deposit is subject to a 7.5% net smelter return royalty.
- 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.

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. Following successful due-diligence studies completed in 2005 and 2006 we have decided to complete the transaction to acquire the property. SO.DE.MI. has been advised of our intent and formal documentation of the transaction is underway. Following acquisition of 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. A program and budget to accomplish this target is currently being prepared.

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.

We are engaged in routine litigation incidental to our business. No material legal proceedings, involving us or our business are pending, or, to our knowledge, contemplated, by any governmental authority. We are not aware of any material events of non compliance with environmental laws and regulations.

15. Share Capital

Changes in share capital during the three months ended March 31, 2007 were:

	Shares	Amount
Balance as of December 31, 2006	207,891,358	$ 524,619
Common shares issued:		
Equity offering (net)	24,150,000	82,404
Option exercises	940,000	989
Warrants exercised	62,783	254
Bonus shares and other	50,683	175
Balance as of March 31, 2007	233,094,824	$ 608,441

16. Warrants

On February 14, 2007, 8,401,031 share purchase warrants expired. They were issued in conjunction with an equity offering in 2003 at a strike price of Cdn$4.60. As of March 31, 2007 we have 3,224,520 warrants outstanding which were issued as part of the St. Jude acquisition in December 2005. These warrants expire on November 20, 2008 and have a strike price of Cdn$4.17.

17. Stock Based Compensation

Stock Options - We have one stock option plan, the Second Amended and Restated 1997 Stock Option Plan (the Plan), and options are granted under this plan from time to time at the discretion of the Compensation Committee. Options granted are non-assignable and are exercisable for a period of ten years or such other period as stipulated in a stock option agreement between Golden Star and the optionee. Under the 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 4,747,967 are available for grant at March 31, 2007. 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 in late 2005 of which 792,000 remain unexercised as of March 31, 2007. 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:

	Three months ended March 31, 2007	Three months ended March 31, 2006
Total cost during the period	$ 1,844	$ 882

We granted 931,183 and 746,000 options during the three months ended March 31, 2007 and 2006, respectively. The Company recognized $1.8 million and $0.9 million of non-cash compensation expense in the three months ended March 31, 2007 and 2006, respectively. We do 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 three months ended March 31, 2007 and 2006.

The fair value of options granted during the first three months of 2007 and 2006 were estimated at the grant dates using the Black-Scholes option-pricing model based on the assumptions noted in the following table:

	Three months ended March 31, 2007	Three months ended March 31, 2006
Expected volatility	66.66% to 67.13%	50.67% to 67.95%
Risk-free interest rate	3.92% to 3.95%	4.00% to 4.01%
Expected lives	6 to 7 years	4 to 7 years
Dividend yield	0%	0%

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 March 31, 2007 and changes during the three months then ended is presented below:

	Options (000)	Weighted-Average Exercise price	Weighted-Average Remaining Contractual	Aggregate intrinsic value (Cdn$000)

		(Cdn$)	Term (Years)
Outstanding as of December 31, 2006	6,556	2.98	5.7