

GOLDEN STAR RESOURCES LTD

Form 10-Q

November 04, 2004

Table of Contents

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 September 30, 2004

OR

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

For the transition period from _____ to _____.

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)

(303) 830-9000

(Registrant's telephone number, including area code)

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 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No []

Number of Common Shares outstanding as of October 29, 2004: 142,004,112

INDEX

Part I	Financial Information	
	<u>Item 1. Financial Statements</u>	4
	<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
	<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	28
	<u>Item 4. Controls and Procedures</u>	28
Part II	<u>Other Information</u>	
	<u>Item 1. Legal Proceedings</u>	29
	<u>Item 2. Changes in Securities and the Use of Proceeds</u>	29
	<u>Item 3. Defaults Upon Senior Securities</u>	29
	<u>Item 4. Submission of Matters to A Vote of Security Holders</u>	29
	<u>Item 5. Other Information</u>	29
	<u>Item 6. Exhibits and Reports on Form 8-K</u>	29
	<u>Signatures</u>	30
	<u>Exhibits</u>	31
	<u>Certification of Principal Executive Officer - Section 302</u>	
	<u>Certification of Principal Financial Officer - Section 302</u>	
	<u>Certification of Principal Executive Officer - Section 906</u>	
	<u>Certification of Principal Financial Officer - Section 906</u>	

REPORTING CURRENCY, FINANCIAL AND OTHER INFORMATION

All amounts in this report are expressed in US dollars, unless otherwise indicated. Canadian currency is denoted as Cdn\$, Australian currency is denoted by A\$ and the Euro is denoted as €. Financial information is presented in accordance with accounting principles generally accepted in Canada (Cdn 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 18 to the Consolidated Financial Statements. References to Golden Star, we, our, and us mean Golden Star Resources Ltd., its predecessors and consolidated subsidiaries, or any one or more of them, as the context requires.

NON-GAAP MEASURES

In this Form 10-Q, the terms total cash cost and cash operating cost are used on a per ounce of gold basis. Total cash cost per ounce is equivalent to mining operations expense for the period as found on the Consolidated Statements of Operations, divided by the number of ounces of gold sold during the period. Cash operating cost per ounce is equivalent to mining operations expense for the period less production royalties and production taxes, divided by the number of ounces of gold sold during the period. We have included total cash cost and cash operating cost information to provide investors with information about the cost structure of our mining operations. We use this information for the same purpose and for monitoring the performance of our operations. This information differs from measures of performance determined in accordance with GAAP in Canada and the US and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. These measures might not be comparable to similarly titled measures of other companies. See Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations for a reconciliation of these non-GAAP measures to our Statements of Operations.

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 Exchange Act of 1934, as amended, with respect to our financial condition,

results of operations, business prospects, plans, objectives, goals, strategies, future events, capital expenditure, and exploration and development efforts. Words such as anticipates , expects , intends , plans , forecasts , projects , believes , seeks , estimates , could , might , should , may , will , and similar expressions identify forward-looking statements. 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-

Table of Contents

looking statements contained or incorporated by reference in this Form 10-Q. These statements include comments regarding: the establishment and estimates of mineral reserves and mineral resources, production, production commencement dates, production costs, cash operating costs per ounce, total cash costs per ounce, grade, processing capacity, potential mine life, feasibility studies, development costs, capital and operating expenditures, exploration, the closing of certain transactions including acquisitions and offerings, our expansion plans for Bogoso/Prestea and the start-up of Wassa.

The following, in addition to the factors described in Risk Factors discussed in our Form 10-K for the fiscal year ended December 31, 2003, are among the factors that could cause actual results to differ materially from the forward-looking statements:

- unexpected changes in business and economic conditions;
- significant increases or decreases in gold prices;
- changes in interest rates and currency exchange rates;
- timing and amount of production;
- unanticipated grade changes;
- unanticipated recovery rates or production problems;
- illegal mining;
- changes in mining, processing and overhead costs;
- changes in metallurgy and processing technology;
- access and availability of materials, equipment, supplies, labor and supervision, power and water;
- determination of mineral reserves and mineral resources;
- availability of drill rigs;
- changes in project parameters;
- costs and timing of development of new mineral reserves;
- results of current and future exploration activities;
- results of pending and future feasibility studies;
- joint venture relationships;
- political or economic instability, either globally or in the countries in which we operate;
- local and community impacts and issues;

timing of receipt of government approvals;

accidents and labor disputes;

environmental costs and risks;

competitive factors, including competition for property acquisitions; and

availability of capital at reasonable rates, or at all.

3

Table of Contents**ITEM 1 FINANCIAL STATEMENTS****GOLDEN STAR RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS**(Stated in thousands of US dollars except shares issued and outstanding)
(Unaudited)

	As of September 30, 2004	As of December 31, 2003
	<hr/>	<hr/>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 75,485	\$ 89,970
Accounts receivable	1,799	790
Inventories (Note 2)	14,986	12,661
Due from sale of property (Note 3)	1,000	1,000
Other current assets	2,516	514
	<hr/>	<hr/>
Total current assets	95,786	104,935
Restricted cash (Note 11)	3,341	3,317
Due from sale of property (Note 3)		1,000
Deferred exploration and development costs (Note 4)	7,114	9,108
Property, plant and equipment (Note 5)	26,057	18,202
Mining properties (Note 6)	69,938	56,808
Mine construction-in-progress (Note 7)	43,502	27,376
Other assets (Note 8)	2,531	1,645
	<hr/>	<hr/>
Total assets	\$ 248,269	\$ 222,391
	<hr/>	<hr/>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 10,607	\$ 5,150
Other accrued liabilities	5,406	2,859
Current debt (Note 9)	941	142
	<hr/>	<hr/>
Total current liabilities	16,954	8,151
Long term debt (Note 9)	536	657
Asset retirement obligations (Note 10)	8,318	7,745
	<hr/>	<hr/>
Total liabilities	25,808	16,553
Minority interest	6,100	7,476
	<hr/>	<hr/>

Commitments and contingencies (Note 11)

SHAREHOLDERS EQUITY

Share capital

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

Common shares, without par value, unlimited shares authorized. Shares issued and outstanding: 141,902,537 at September 30, 2004; 132,924,278 at December 31, 2003 (Notes 12 & 13)

Contributed surplus (Note 13)

Deficit

	341,654	326,623
	1,872	955
	(127,165)	(129,216)
	<u>216,361</u>	<u>198,362</u>
Total shareholders equity	<u>216,361</u>	<u>198,362</u>
Total liabilities and shareholders equity	<u>\$ 248,269</u>	<u>\$ 222,391</u>

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
		Restated (Note 13)		Restated (Note 13)
REVENUE				
Gold sales	\$ 12,327	\$ 18,558	\$ 47,107	\$ 46,083
Interest and other	1,118	243	2,689	552
	<u>13,445</u>	<u>18,801</u>	<u>49,796</u>	<u>46,635</u>
EXPENSES				
Mining operations	10,236	9,286	29,551	25,630
Depreciation, depletion and amortization	1,861	1,281	6,084	3,334
Accretion of asset retirement obligation	167	229	489	428
Exploration expense	152	167	607	400
General and administrative expense	1,486	1,130	4,776	3,386
Corporate development expense	3,939	21	4,043	64
Option expense (Note 13)	42	101	700	345
Loss on equity investment	219		219	
Interest expense	5	8	17	35
Foreign exchange (gain)/loss	(391)	(281)	235	(842)
	<u>17,716</u>	<u>11,942</u>	<u>46,721</u>	<u>32,780</u>
Income/(loss) before the undernoted	(4,271)	6,859	3,075	13,855
Gain on sale of marketable securities				1,905
	<u>(4,271)</u>	<u>6,859</u>	<u>3,075</u>	<u>15,760</u>
Income/(loss) before minority interest	(4,271)	6,859	3,075	15,760
Minority interest	13	(764)	(1,024)	(1,688)
	<u>(4,258)</u>	<u>6,095</u>	<u>2,051</u>	<u>14,072</u>
Net income/(loss) before income tax	(4,258)	6,095	2,051	14,072
Income tax (Note 15)				

NET INCOME/(LOSS)	\$ (4,258)	\$ 6,095	\$ 2,051	\$ 14,072
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Deficit, beginning of period	(122,907)	(143,195)	(129,216)	(151,655)
Cumulative effect of change in accounting method				483
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Adjusted deficit, beginning of period	(122,907)	(143,195)	(129,216)	(151,172)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Deficit, end of period	\$ (127,165)	\$ (137,100)	\$ (127,165)	\$ (137,100)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income/(loss) per common share basic (Note 16)	\$ (0.030)	\$ 0.053	\$ 0.015	\$ 0.132
Net income/(loss) per common share diluted (Note 16)	\$ (0.030)	\$ 0.049	\$ 0.014	\$ 0.125
Weighted average shares outstanding (millions of shares)	141.1	114.6	137.0	106.5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

GOLDEN STAR RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in thousands of US dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
		Restated (Note 13)		Restated (Note 13)
OPERATING ACTIVITIES:				
Net income/(loss)	\$ (4,258)	\$ 6,095	\$ 2,051	\$ 14,072
Reconciliation of net income/(loss) to net cash provided by operating activities:				
Depreciation, depletion and amortization	1,861	1,281	6,084	3,334
Stock-based compensation	86	169	1,095	867
Deferred stripping	(652)		(652)	
Loss on equity investment	219		219	
Reclamation expenditures	(95)	(256)	(563)	(646)
Accretion of asset retirement obligation	167	229	489	428
Minority interest	(13)	764	1,024	1,688
	(2,685)	8,467	9,747	20,642
Changes in assets and liabilities:				
Accounts receivable	2,127	(61)	(1,009)	1,259
Inventories	(407)	(1,624)	(2,325)	(3,273)
Accounts payable and accrued liabilities	3,874	803	8,004	(802)
Marketable securities				906
Other	(2,175)	(194)	(2,002)	(165)
Net cash provided by operating activities	734	7,391	12,415	18,567
INVESTING ACTIVITIES:				
Expenditures on deferred exploration and development	(1,059)	(3,961)	(4,750)	(7,058)
Expenditures on mining properties	(6,073)	(6,027)	(12,343)	(14,782)
Expenditures on property, plant and equipment	(5,645)	(4,246)	(9,082)	(6,788)
Expenditures on mine construction-in-progress	(5,691)	(3,832)	(16,032)	(13,389)
Sale of property			1,000	1,000
Other	1,830	(2,477)	(1,129)	370

Net cash used in investing activities	<u>(16,638)</u>	<u>(20,728)</u>	<u>(42,336)</u>	<u>(41,546)</u>
FINANCING ACTIVITIES:				
Issuance of share capital, net of issue costs (Note 12)	5,508	29,743	14,758	63,539
Debt repayment (Note 9)	(35)	(309)	(116)	(3,313)
Other	<u>81</u>	<u>20</u>	<u>794</u>	<u>60</u>
Net cash provided by financing activities	<u>5,554</u>	<u>29,454</u>	<u>15,436</u>	<u>60,286</u>
Increase/(decrease) in cash and cash equivalents	(10,350)	16,117	(14,485)	37,307
Cash and cash equivalents, beginning of period	<u>85,835</u>	<u>41,206</u>	<u>89,970</u>	<u>20,016</u>
Cash and cash equivalents end of period	<u>\$ 75,485</u>	<u>\$ 57,323</u>	<u>\$ 75,485</u>	<u>\$ 57,323</u>

See Note 17 for supplemental cash flow information

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

GOLDEN STAR RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All tabular amounts 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, 2003, on file with the Securities and Exchange Commission and with the Canadian securities commissions (referred to as the 2003 Form 10-K). Financial information is presented in accordance with accounting principles generally accepted in Canada.

The unaudited consolidated financial statements for the three and nine months ended September 30, 2004 and September 30, 2003 contained herein reflect all adjustments, consisting solely of normal recurring items, which are necessary for a 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 adoption of a deferred waste stripping policy. See Note 6 below.

Prior period amounts have been restated to reflect the impact of the adoption in December 2003 of the Canadian Institute of Chartered Accountants amended Handbook Section 3870, Stock-based Compensation and other Stock-based Payments . Information presented for prior periods in 2003 have been restated to reflect the adoption of Section 3870 amendments as of January 1, 2003.

1. Description of Business

We are a Canadian international gold mining and exploration company focused primarily on mining, mine development and exploration in Ghana, West Africa. Through our subsidiaries and joint ventures we own a controlling interest in four gold properties in Ghana; the Bogoso property (Bogoso), the Prestea property (Prestea), the Wassa property (Wassa) and the currently inactive Prestea underground property (Prestea Underground). Bogoso and Prestea are adjoining properties and both are owned by our 90% owned subsidiary Bogoso Gold Limited (BGL). These two properties now function as a single operation referred to as Bogoso/Prestea . BGL holds a 90% interest in the Prestea Underground. Wassa is owned by our 90% owned subsidiary, Wexford Goldfields Limited.

We operate the Bogoso/Prestea mine, with ore mined at the Prestea property being processed at the Bogoso processing plant. To date, Bogoso/Prestea has produced all of our gold since we became a gold producer upon our purchase of Bogoso in late 1999. We commenced development of the Wassa mine in mid-2003 and are currently in a commissioning and testing phase.

We hold interests in exploration joint ventures, managed by our joint venture partners, in Mali and Sierra Leone in West Africa. We also hold active exploration properties in Ghana, Suriname and French Guiana. And through our affiliate Goldmin Holdings, we hold interests in gold exploration properties in Peru and Chile.

We are a reporting issuer or the equivalent in all provinces and territories of Canada and the United States and file disclosure documents with the Canadian securities regulatory authorities and the United States Securities and Exchange Commission.

2. Inventories

As of

As of

	September 30, 2004	December 31, 2003
Stockpiled ore	\$ 3,827	\$ 4,167
In-process	2,250	2,821
Materials and supplies	8,909	5,673
	<hr/>	<hr/>
Total inventories	\$14,986	\$12,661
	<hr/>	<hr/>

3. Guiana Shield Transaction

In late 2001 we sold our Gross Rosebel exploration property in South America to Cambior Inc. (Cambior). In addition to a \$5.0 million payment received at closing in 2002, terms of the sale agreement provided that Cambior would make

Table of Contents

three deferred payments of \$1.0 million each plus royalty payments on the first seven million ounces of gold production. The first and second deferred payments were received in the first quarters of 2003 and 2004 respectively. The third and final deferred payment is expected in the first quarter of 2005. Gold production began at Gross Rosebel in the first quarter of 2004 which triggered the quarterly production royalty due to us from the property. Royalty revenue of approximately \$1.8 million was recorded in the first nine months of 2004 and is included in revenues. The property generating the royalty did not begin operations until early 2004 and thus there were no comparable royalty revenues in the first nine months of 2003.

In late September 2004, we entered into an agreement to sell the production royalty to our 53% owned subsidiary, Guyanor Ressources S.A. The sale is expected to close in December 2004.

4. Deferred Exploration and Development Costs

	Deferred Exploration & Development Costs as of 12/31/03	Capitalized Exploration Expenditures	Acquisitions	Transferred to Mine Property	Deferred Exploration & Development Costs as of 9/30/04
GHANA:					
Obuom	\$ 278	\$ 2	\$	\$	\$ 280
Bogoso Sulfide Project	5,930			(5,930)	
Akropong Trend & Other Ghana	1,759	591			2,350
Prestea Property Projects		1,951			1,951
Beta Boundary	814			(814)	
MALI:					
Mininko	130	881			1,011
SIERRA LEONE					
Mano River		753			753
FRENCH GUIANA:					
Bon Espoir			163		163
Other			225		225
SURINAME:					
Saramacca	197	184			381
TOTAL	\$ 9,108	\$ 4,362	\$ 388	\$(6,744)	\$ 7,114

The Bogoso Sulfide project, and the Beta Boundary pits at Prestea, which will feed the Bondaye Plant, were deemed sufficiently advanced by the end of 2003 to be reclassified in early 2004 as mining properties rather than as exploration properties. Reclassification was based upon defining proven and probable reserves at both projects, completion of a feasibility study for the Bogoso Sulfide project showing it to be economically viable, board approval to proceed with the Bondaye/Beta Boundary project and initiation of detailed engineering and development in 2004.

Table of Contents**5. Property, Plant and Equipment**

	As of September 30, 2004			As of December 31, 2003		
	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	\$25,464	\$ 5,324	\$ 20,140	\$15,765	\$ 4,143	\$ 11,622
Prestea Underground	238		238	227		227
Guyanor	1,969	1,943	26	1,985	1,952	33
Wassa	5,460		5,460	6,259		6,259
Corporate & Other	969	776	193	782	721	61
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$34,100	\$ 8,043	\$ 26,057	\$25,018	\$ 6,816	\$ 18,202
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

6. Mining Properties