

GOLDEN STAR RESOURCES LTD  
Form 10-Q  
November 09, 2009

# 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, 2009

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)

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|  |   |
|--|---|
| (State or other Jurisdiction of<br>Incorporation or Organization)        | (I.R.S. Employer<br>Identification No.) |
| <b>10901 West Toller Drive, Suite 300</b>                                |   |
| <b>Littleton, Colorado</b><br>(Address of Principal Executive Office)    | <b>80127-6312</b><br>(Zip Code)         |
| <b>Registrant's telephone number, including area code (303) 830-9000</b> |   |

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 report) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer:  Accelerated filer:  Non-accelerated filer:  Smaller reporting company:

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

Number of Common Shares outstanding as at November 6, 2009: 236,939,761

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## 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 Canadian GAAP, as applicable to Golden Star Resources Ltd., are explained in Note 24 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, or 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 applicable Canadian securities law and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Cdn GAAP or US 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, and within the meaning of applicable Canadian securities law, 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, similar expressions (including negative and grammatical variations) tend to 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-looking statements contained in this Form 10-Q.

These statements include comments regarding: anticipated attainment of gold production rates; production and cash operating cost estimates for 2009; anticipated commencement dates of mining and production at Prestea South; production capacity, production rates, and production costs; cash operating costs generally; gold sales; mining operations and recovery rates; ore delivery; ore processing; permitting; establishment and estimates of Mineral Reserves and Resources; geological, environmental, community and engineering studies; receipt of environmental management plan approvals by the EPA; exploration efforts and activities; ore grades; our anticipated investing and exploration spending during 2009; identification of acquisition and growth opportunities; power costs, the ability to meet total power requirements, completion of construction of the Bogoso power plant; retention of earnings from our operations; expected operational cash flow during the remainder of 2009; our objectives for 2009; the progress of pending litigation; expected debt payments during 2009; usage of the funds borrowed under our credit facility; and sources of and adequacy of liquidity to meet capital and other needs in 2009 and beyond.

The following, in addition to the factors described under Risk Factors in Item 1A of our December 31, 2008 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;

losses or gains in Mineral Reserves from changes in operating costs and/or gold prices;

failure of exploration efforts to expand Mineral Reserves around our existing mines;

unexpected changes in business and economic conditions;

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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 Mineral Reserves;

weather, including drought or excessive rainfall in West Africa;

changes in regulatory frameworks based upon perceived climate trends;

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 Mineral 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;

changes in tax laws;

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 except as may be required by applicable laws.

## 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<br>September 30,<br>2009 | As of<br>December 31,<br>2008<br>restated (note 3) |
|---|--------------------------------|--|
| <b>ASSETS</b>   |                                |  |
| <b>CURRENT ASSETS</b>   |                                |  |
| Cash and cash equivalents   | \$ 57,634                      | \$ 33,558  |
| Accounts receivable   | 5,626                          | 4,306  |
| Inventories (Note 6)  | 51,490                         | 49,134   |
| Deposits (Note 7)   | 4,724                          | 3,875  |
| Prepays and other   | 677                            | 1,100  |
| Total Current Assets  | 120,151                        | 91,973   |
| RESTRICTED CASH (Note 16)   | 3,804                          | 4,249  |
| DEFERRED EXPLORATION AND DEVELOPMENT COSTS (Note 9)   | 11,245                         | 13,713   |
| PROPERTY, PLANT AND EQUIPMENT (Note 10)   | 239,052                        | 271,528  |
| INTANGIBLE ASSETS (Note 8)  | 10,007                         |  |
| MINING PROPERTIES (Note 11)   | 286,804                        | 312,029  |
| OTHER ASSETS  | 183                            | 807  |
| Total Assets  | \$ 671,246                     | \$ 694,299   |
| <b>LIABILITIES</b>  |                                |  |
| <b>CURRENT LIABILITIES</b>  |                                |  |
| Accounts payable  | \$ 30,465                      | \$ 43,355  |
| Accrued liabilities   | 31,641                         | 30,879   |
| Fair value of derivatives (Note 12)   | 251                            | 1,690  |
| Asset retirement obligations (Note 13)  | 1,858                          | 1,620  |
| Current tax liability (Note 15)   | 616                            |  |
| Current debt (Note 14)  | 10,256                         | 12,778   |
| Total Current Liabilities   | 75,087                         | 90,322   |
| LONG TERM DEBT (Note 14)  | 113,359                        | 112,649  |
| ASSET RETIREMENT OBLIGATIONS (Note 13)  | 30,651                         | 30,036   |
| FUTURE TAX LIABILITY (Note 15)  | 24,506                         | 33,125   |
| Total Liabilities   | 243,603                        | 266,132  |
| <b>MINORITY INTEREST</b>  |                                |  |
| <b>COMMITMENTS AND CONTINGENCIES (Note 16)</b>  |                                |  |
| <b>SHAREHOLDERS EQUITY</b>  |                                |  |
| <b>SHARE CAPITAL (Note 17)</b>  |                                |  |
| 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:<br>236,744,561 at September 30, 2009 and 235,945,311 at December 31, 2008 |                                |  |
|   | 616,444                        | 615,463  |
| CONTRIBUTED SURPLUS   | 16,685                         | 15,197   |
| EQUITY COMPONENT OF CONVERTIBLE DEBENTURES  | 34,542                         | 34,542   |

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|  |            |            |
|--|------------|------------|
| ACCUMULATED OTHER COMPREHENSIVE INCOME     | 27         | (88)       |
| DEFICIT                                    | (240,055)  | (236,947)  |
| Total Shareholders' Equity                 | 427,643    | 428,167    |
| Total Liabilities and Shareholders' Equity | \$ 671,246 | \$ 694,299 |

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



## GOLDEN STAR RESOURCES LTD.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Stated in thousands of US dollars except shares and per share data)

(unaudited)

|  | Three months ended<br>September 30, |                           | Nine months ended<br>September 30, |                           |
|--|-------------------------------------|---------------------------|------------------------------------|---------------------------|
|  | 2009                                | 2008<br>restated (note 3) | 2009                               | 2008<br>restated (note 3) |
| <b>REVENUE</b>                                 |                                     |                           |                                    |                           |
| Gold revenues                                  | \$ 103,804                          | \$ 64,099                 | \$ 283,317                         | \$ 187,713                |
| Cost of sales (Note 18)                        | 96,241                              | 81,017                    | 268,518                            | 201,342                   |
| <b>Mine operating margin/(loss)</b>            | <b>7,563</b>                        | <b>(16,918)</b>           | <b>14,799</b>                      | <b>(13,629)</b>           |
| <b>OTHER EXPENSES, (GAINS) AND LOSSES</b>      |                                     |                           |                                    |                           |
| Exploration expense                            | 223                                 | 552                       | 570                                | 1,499                     |
| General and administrative expense             | 3,290                               | 3,740                     | 10,449                             | 11,949                    |
| Abandonment and impairment                     | 2,787                               | 1,539                     | 3,077                              | 1,539                     |
| Derivative mark-to-market losses (Note 12)     | 1,003                               | 1,395                     | 1,087                              | 1,638                     |
| Property holding costs                         | 768                                 |                           | 2,770                              |                           |
| Foreign exchange (gain)/loss                   | 540                                 | (1,111)                   | (3,673)                            | (1,132)                   |
| Interest expense                               | 3,942                               | 3,616                     | 11,476                             | 11,028                    |
| Interest and other income                      | (69)                                | (142)                     | (152)                              | (777)                     |
| Loss on sale of assets                         | 1                                   | 588                       | 305                                | 588                       |
| Gain on sale of investments                    |                                     | (3,570)                   |                                    | (5,075)                   |
| Loss before minority interest                  | (4,922)                             | (23,525)                  | (11,110)                           | (34,886)                  |
| Minority interest                              |                                     | 1,289                     |                                    | 2,303                     |
| Net loss before income tax                     | (4,922)                             | (22,236)                  | (11,110)                           | (32,583)                  |
| Income tax benefit (Note 15)                   | 2,580                               |                           | 8,002                              |                           |
| <b>Net loss</b>                                | <b>\$ (2,342)</b>                   | <b>\$ (22,236)</b>        | <b>\$ (3,108)</b>                  | <b>\$ (32,583)</b>        |
| <b>OTHER COMPREHENSIVE LOSS</b>                |                                     |                           |                                    |                           |
| Unrealized gains/(losses) on investments       | 74                                  | (5,555)                   | 115                                | (2,950)                   |
| <b>Comprehensive loss</b>                      | <b>\$ (2,268)</b>                   | <b>\$ (27,791)</b>        | <b>\$ (2,993)</b>                  | <b>\$ (35,533)</b>        |
| Deficit, beginning of period                   | (237,713)                           | (127,991)                 | (236,947)                          | (117,644)                 |
| Deficit, end of period                         | (240,055)                           | (150,227)                 | (240,055)                          | (150,227)                 |
| Net loss per common share basic (Note 20)      | \$ (0.010)                          | \$ (0.094)                | \$ (0.013)                         | \$ (0.138)                |
| Weighted average shares outstanding (millions) | 236.5                               | 235.9                     | 236.2                              | 235.6                     |

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

## GOLDEN STAR RESOURCES LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in thousands of US dollars)

(unaudited)

|   | Three months ended<br>September 30, |                           | Nine months ended<br>September 30, |                           |
|---|-------------------------------------|---------------------------|------------------------------------|---------------------------|
|   | 2009                                | 2008<br>restated (note 3) | 2009                               | 2008<br>restated (note 3) |
| <b>OPERATING ACTIVITIES:</b>  |                                     |                           |                                    |                           |
| Net loss  | \$ (2,342)                          | \$ (22,236)               | \$ (3,108)                         | \$ (32,583)               |
| <b>Reconciliation of net loss to net cash provided by operating activities:</b> |                                     |                           |                                    |                           |
| Depreciation, depletion and amortization  | 29,344                              | 14,697                    | 82,036                             | 37,319                    |
| Amortization of loan acquisition cost   | 478                                 | 291                       | 805                                | 566                       |
| Abandonment and impairment  | 2,787                               | 1,539                     | 3,077                              | 1,539                     |
| Gain on sale of equity investments  |                                     | (3,570)                   |                                    | (5,075)                   |
| Loss on sale of assets  | (1)                                 | 588                       | 305                                | 588                       |
| Stock compensation  | 424                                 | 436                       | 1,489                              | 1,575                     |
| Income tax benefit  | (2,580)                             |                           | (8,002)                            |                           |
| Reclamation expenditures  | (481)                               | (437)                     | (1,212)                            | (759)                     |
| Fair value of derivatives   | 647                                 | 1,067                     | (1,542)                            | 1,102                     |
| Accretion of convertible debt   | 1,669                               | 1,562                     | 4,926                              | 4,609                     |
| Accretion of asset retirement obligations                                       | 539                                 | 222                       | 1,616                              | 585                       |
| Minority interests  |                                     | (1,288)                   |                                    | (2,303)                   |
|   | 30,484                              | (7,129)                   | 80,390                             | 7,163                     |
| <b>Changes in assets and liabilities:</b>                                       |                                     |                           |                                    |                           |
| Accounts receivable   | (877)                               | (757)                     | (1,236)                            | (569)                     |
| Inventories   | (3,409)                             | 2,281                     | (2,568)                            | (10,063)                  |
| Prepays and other   | 819                                 | (327)                     | 501                                | (1,331)                   |
| Deposits  | (222)                               | (2,576)                   | (1,323)                            | (2,261)                   |
| Accounts payable and accrued liabilities  | (496)                               | 6,444                     | (9,053)                            | 9,650                     |
| Other   |                                     |                           | (38)                               |                           |
| Net cash provided by/(used in) operating activities                             | 26,299                              | (2,064)                   | 66,673                             | 2,589                     |
| <b>INVESTING ACTIVITIES:</b>  |                                     |                           |                                    |                           |
| Expenditures on deferred exploration and development                            | (928)                               | (3,467)                   | (1,598)                            | (7,389)                   |
| Expenditures on mining properties   | (3,637)                             | (18,056)                  | (23,532)                           | (39,002)                  |
| Expenditures on property, plant and equipment                                   | (4,614)                             | (3,442)                   | (9,466)                            | (8,859)                   |
| Cash (used for)/refunded from secure letters of credit                          |                                     | 497                       | 445                                | (3,145)                   |
| Proceeds from sale of equity investment   |                                     | 5,730                     |                                    | 6,532                     |
| Proceeds from the sale of assets  |                                     | 1,341                     |                                    | 1,341                     |
| Change in payable on capital expenditures                                       | 827                                 | 6,126                     | (3,135)                            | (2,220)                   |
| Change in deposits on mine equipment and material                               |                                     |                           | 474                                |                           |
| Net cash used in investing activities   | (8,352)                             | (11,271)                  | (36,812)                           | (52,742)                  |
| <b>FINANCING ACTIVITIES:</b>  |                                     |                           |                                    |                           |
| Issuance of share capital, net of issue costs                                   | 395                                 |                           | 981                                | 6,255                     |
| Principal payments on debt  | (2,870)                             | (4,436)                   | (10,062)                           | (13,321)                  |
| Proceeds from debt agreements and equipment financing                           |                                     | 6,104                     | 5,478                              | 7,218                     |
| Other   | (1,011)                             | (193)                     | (2,182)                            | (466)                     |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Net cash (used in)/provided by financing activities | (3,486)   | 1,475     | (5,785)   | (314)     |
| Increase/(decrease) in cash and cash equivalents    | 14,461    | (11,860)  | 24,076    | (50,467)  |
| Cash and cash equivalents, beginning of period      | 43,173    | 37,147    | 33,558    | 75,754    |
| Cash and cash equivalents end of period             | \$ 57,634 | \$ 25,287 | \$ 57,634 | \$ 25,287 |

*(See Note 23 for supplemental cash flow information)*

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

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**GOLDEN STAR RESOURCES LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)**

These interim consolidated financial statements of Golden Star Resources Ltd and its subsidiaries (collectively, Golden Star, GSR, the Company, we, our, or us) are unaudited. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of the interim financial statements have been included. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the full year. These interim statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the US Securities and Exchange Commission.

**1. Nature of operations**

Through our subsidiaries, we own and operate the Bogoso/Prestea gold mining and processing operation (Bogoso/Prestea) located near the town of Bogoso, Ghana and the Wassa gold mine (Wassa), located approximately 35 kilometers east of Bogoso/Prestea. Wassa also processes ore mined at our Benso and Hwini-Butre mines. We hold interests in several gold exploration projects in Ghana and elsewhere in West Africa including Sierra Leone, Burkina Faso, Niger and Côte d'Ivoire, and hold and manage exploration properties in Suriname, Brazil and French Guiana in South America.

**2. Basis of presentation**

Our 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. These consolidated financial statements were prepared in conformity with interim reporting standards and as such do not contain all of the information required for annual financial statements. Our consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liabilities in the normal course of business. These consolidated financial statements include the accounts of the Company and its majority owned subsidiaries, whether owned directly or indirectly. All inter-company balances and transactions have been eliminated. Subsidiaries are defined as entities in which the company holds a controlling interest, is the general partner or where it is subject to the majority of expected losses or gains. Our fiscal year-end is December 31. Certain comparative figures have been reclassified to conform to the presentation adopted for the current period and to reflect retroactive restatements of certain balance required upon the adoption of new guidance in the current year.

**3. Recent accounting pronouncements**

The Canadian Accounting Standards Board (AcSB) has issued Canadian Institute of Chartered Accountants: Handbook (CICA) Section 3064, Goodwill and Intangible Assets which replaces CICA 3062 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. CICA 3064 expands on the criteria for recognition of intangible assets that can be recognized and applies to internally-generated intangible assets as well as to purchased intangible assets. Section 3064 dictates that certain expenditures not meeting the recognition criteria of an intangible asset are expensed as incurred. Emerging issues committee decision (EIC) 27 (Revenues and Expenditures in the pre-operation period) is no longer applicable for entities that have adopted CICA 3064. Section 3064 became effective January 1, 2009 and required that we retrospectively adjust our financial statements to reflect the impact of the changes to the accounting for intangible assets.

In response to this new standard, the accompanying September 30, 2009 financial statements and comparative period financials include the impact of the reclassification of certain 2005 plant start-up period costs to expense, such costs having been initially capitalized as Mining Property assets. The total of these costs was \$4.7 million with a net book value of \$1.9 million at December 31, 2008. Depreciation expense was decreased by \$0.7 million and \$0.4 million in the nine months ended September 30, 2008 and the nine months ended September 30, 2009, respectively.

In January 2009, the CICA issued Handbook Section 1582, Business Combinations (Section 1582), Section 1582 requires that all assets and liabilities of an acquired business will be recorded at fair value at acquisition. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. Section 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011. The Company is currently assessing the impact of the new standard on its financial statements.

In January 2009, the CICA issued Handbook Section 1601, Consolidations (Section 1601), and section 1602, Non-controlling Interests (Section 1602). Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for

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accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of the new standard on its financial statements.

## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

In January 2009 the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC provided guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The standard is effective for our fiscal year beginning January 1, 2009. The application of this EIC did not have a significant effect on our financial statements.

In March 2009, the CICA issued EIC-174, Mining Exploration Costs. The EIC provides guidance on accounting for capitalization and impairment of exploration costs. This standard is effective for our fiscal year beginning January 1, 2009. The application of this EIC did not have any effect on our financial statements. The application of EIC 174 had no impact on our financial statements.

**4. Financial instruments**Financial Assets

The carrying amounts and fair values of our financial assets are as follows:

| Assets  | Category              | September 30, 2009   |                  | December 31, 2008    |                  |
|---|-----------------------|----------------------|------------------|----------------------|------------------|
|   |                       | Estimated Fair Value | Carrying Value   | Estimated Fair Value | Carrying Value   |
| Cash and cash equivalents <sup>1</sup>                  | Held-for-trading      | \$ 57,634            | \$ 57,634        | \$ 33,558            | \$ 33,558        |
| Restricted cash <sup>1</sup>                            | Held-for-trading      | 3,804                | 3,804            | 4,249                | 4,249            |
| Accounts receivable <sup>1</sup>                        | Loans and receivables | 5,626                | 5,626            | 4,306                | 4,306            |
| Derivative Instrument- Riverstone Warrants <sup>1</sup> | Held-for-trading      | 114                  | 114              | 11                   | 11               |
| Available for sale investments <sup>1</sup>             | Available-for-sale    | 183                  | 183              | 29                   | 29               |
| <b>Total financial assets</b>                           |                       | <b>\$ 67,361</b>     | <b>\$ 67,361</b> | <b>\$ 42,153</b>     | <b>\$ 42,153</b> |

Financial Liabilities

The carrying amounts and fair values of our financial liabilities are as follows:

| Liabilities  | Category                    | September 30, 2009   |                   | December 31, 2008    |                   |
|--|-----------------------------|----------------------|-------------------|----------------------|-------------------|
|  |                             | Estimated Fair Value | Carrying Value    | Estimated Fair Value | Carrying Value    |
| Accounts payable and accrued liabilities <sup>1</sup>  | Other financial liabilities | \$ 62,106            | \$ 62,106         | \$ 74,234            | \$ 74,234         |
| Derivative Instrument Structured Gold Options          | Held-for-trading            | 149                  | 149               |                      |                   |
| Derivative instruments Gold Forward Contracts          | Held-for-trading            | 103                  | 103               | 1,690                | 1,690             |
| Convertible senior unsecured debentures <sup>2,3</sup> | Other financial liabilities | 112,978              | 99,162            | 108,436              | 93,738            |
| Revolving credit facility <sup>2,5</sup>               | Other financial liabilities | 4,657                | 2,348             |                      |                   |
| Debt facility <sup>1</sup>                             | Other financial liabilities |                      |                   | 625                  | 625               |
| Equipment financing loans <sup>2</sup>                 | Other financial liabilities | 22,010               | 22,105            | 33,757               | 31,063            |
| <b>Total financial liabilities</b>                     |                             | <b>\$ 202,003</b>    | <b>\$ 185,973</b> | <b>\$ 218,742</b>    | <b>\$ 201,350</b> |

<sup>1</sup> Carrying amount is a reasonable approximation of fair value, all cash and liquid assets are deposited with reputable institutions, and all investments and derivatives are valued and carried at fair value.

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- 2 The fair values of outstanding loans are determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rates of comparable debt instruments.
- 3 The carrying value of the convertible senior unsecured debentures is being accreted to maturity value through charges to income over their term based on the effective yield method. Financing costs allocated to the issuance of debt are deferred, amortized over the term of the related debt using the effective yield method and presented as a reduction of the related debt.
- 4 The fair value represents quoted market prices in an active market.
- 5 The carrying value of the revolving credit facility is shown net of unamortized financing costs.

### **5. Liquidity Risk**

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. The following table provides a maturity analysis of our scheduled debt and interest payments. We are currently in compliance with repayment schedules and the financial covenants of all our credit agreements. We manage the liquidity risk inherent in these financial obligations by preparing an

## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

annual long-term budget which forecasts cash needs and expected cash availability to meet future needs for these obligations. Our ability to repay or refinance our future obligations depends on a number of factors, some of which may be beyond our control. Factors that influence our ability to meet these obligations include general global economic conditions, credit and capital market conditions, and the price of gold.

Scheduled payments on outstanding debt as of September 30, 2009:

| Liabilities               | 3 months |           |           |            |          | Maturity     |
|---------------------------|----------|-----------|-----------|------------|----------|--------------|
|                           | 2009     | 2010      | 2011      | 2012       | 2013     |              |
| Equipment financing loans |          |           |           |            |          |              |
| principal                 | \$ 2,707 | \$ 9,144  | \$ 5,322  | \$ 3,326   | \$ 1,606 | 2009 to 2013 |
| interest                  | 421      | 1,255     | 657       | 252        | 56       |              |
| Revolving credit facility |          |           |           |            |          |              |
| principal                 |          |           |           | 5,000      |          | Sep 30, 2012 |
| interest                  | 66       | 266       | 266       | 222        |          |              |
| Convertible debentures    |          |           |           |            |          |              |
| principal                 |          |           |           | 125,000    |          | Nov 30, 2012 |
| interest                  | 2,500    | 5,000     | 5,000     | 5,000      |          |              |
| Total                     | \$ 5,694 | \$ 15,665 | \$ 11,245 | \$ 138,800 | \$ 1,662 |              |

**6. Inventories**

|                        | As of              |                   |
|------------------------|--------------------|-------------------|
|                        | September 30, 2009 | December 31, 2008 |
| Stockpiled ore         | \$ 4,258           | \$ 6,497          |
| In-process             | 9,091              | 10,626            |
| Materials and supplies | 36,313             | 32,011            |
| Finished goods         | 1,828              |                   |
| <b>Total</b>           | <b>\$ 51,490</b>   | <b>\$ 49,134</b>  |

There were approximately 22,000 and 45,000 recoverable ounces of gold in the ore stockpile inventories shown above at September 30, 2009 and December 31, 2008, respectively. Stockpile inventories are short-term surge piles expected to be processed within the next 12 months.

**7. Deposits**

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

**8. Intangible Assets**

We, along with three other gold mining companies operating in Ghana, organized a consortium that purchased and constructed a nominal 80 megawatt power station in Ghana. Construction was completed in 2008, and the plant has since generated power, adding its output to the Ghana national grid. Our share of the acquisition and construction costs totaled \$12.4 million. At June 30, 2009, the four owners transferred ownership and operational responsibility of the plant to the Ghana power authority. In response, at the end of the second quarter of 2009, our 25% ownership share in the power plant, with a net book value of \$10.5 million, was transferred from fixed assets to intangible assets in our balance sheet.



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This intangible asset represents our right to receive from the Ghana national grid, an amount of the electric power equal to one fourth of the plant's power output over and above any rationing limit that might be imposed in the future by the Ghana national power authority. The intangible asset is being amortized over five years from the transfer date.

## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

## 9. Deferred exploration and development costs

Consolidated capitalized expenditures on our exploration projects for the nine months ended September 30, 2009 were as follows:

|                                | Deferred<br>Exploration &<br>Development<br>Costs as of<br>December 31, 2008 | Capitalized<br>Exploration<br>Expenditures | Transfer<br>to<br>Mining<br>Properties | Impairments       | Deferred<br>Exploration &<br>Development<br>Costs as of<br>2009 |
|--------------------------------|--|--|--|-------------------|---|
| <b>AFRICAN PROJECTS</b>        |  |  |  |                   |   |
| Akropong trend Ghana           | \$ 984   | \$ 467                                     | \$ (749)                               | \$                | \$ 702  |
| Manso Ghana                    | 3,453  | 321  | (240)                                  |                   | 3,534   |
| Mano River Sierra Leone        | 2,674  | 170  |  |                   | 2,844   |
| Other Africa                   | 1,295  | 13   |  | (290)             | 1,018   |
| <b>SOUTH AMERICAN PROJECTS</b> |  |  |  |                   |   |
| Saramacca Suriname             | 781  | 366  |  |                   | 1,147   |
| Paul Isnard French Guiana      | 4,526  | 261  |  | (2,787)           | 2,000   |
| <b>Total</b>                   | <b>\$ 13,713</b>   | <b>\$ 1,598</b>                            | <b>\$ (989)</b>                        | <b>\$ (3,077)</b> | <b>\$ 11,245</b>  |

## 10. Property, plant and equipment

|                      | September 30, 2009                             |                             |  | December 31, 2008                              |                             |   |
|----------------------|--|-----------------------------|--|--|-----------------------------|---|
|                      | Property,<br>Plant and<br>Equipment<br>at Cost | Accumulated<br>Depreciation | Property,<br>Plant and<br>Equipment<br>Net Book<br>Value | Property,<br>Plant and<br>Equipment<br>at Cost | Accumulated<br>Depreciation | Property,<br>Plant and<br>Equipment,<br>Net Book<br>Value |
| Bogoso/Prestea       | \$ 63,525                                      | \$ (34,501)                 | \$ 29,024  | \$ 63,209                                      | \$ (29,956)                 | \$ 33,253   |
| Bogoso sulfide plant | 188,831  | (30,245)                    | 158,586  | 198,989  | (15,498)                    | 183,491   |
| Wassa/HBB            | 81,870   | (30,886)                    | 50,984   | 74,488   | (22,720)                    | 51,768  |
| Corporate & other    | 1,089  | (631)                       | 458  | 3,489  | (473)                       | 3,016   |
| <b>Total</b>         | <b>\$ 335,315</b>                              | <b>\$ (96,263)</b>          | <b>\$ 239,052</b>  | <b>\$ 340,175</b>                              | <b>\$ (68,647)</b>          | <b>\$ 271,528</b>   |

## 11. Mining properties

|                | September 30, 2009              |                             |  | December 31, 2008               |                             |  |
|----------------|---------------------------------|-----------------------------|--|---------------------------------|-----------------------------|--|
|                | Mining<br>Properties<br>At Cost | Accumulated<br>Amortization | Mining<br>Properties,<br>Net Book<br>Value | Mining<br>Properties<br>At Cost | Accumulated<br>Amortization | Mining<br>Properties,<br>Net Book<br>Value |
| Bogoso/Prestea | \$ 61,707                       | \$ (35,412)                 | \$ 26,295                                  | \$ 61,528                       | \$ (34,071)                 | \$ 27,457                                  |
| Bogoso Sulfide | 55,447                          | (12,472)                    | 42,975                                     | 53,452                          | (5,360)                     | 48,092                                     |
| Mampon         | 15,914                          |                             | 15,914                                     | 15,666                          |                             | 15,666                                     |
| Wassa/HBB      | 274,840                         | (86,944)                    | 187,896                                    | 252,713                         | (45,202)                    | 207,511                                    |

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|              |            |              |            |            |             |            |
|--------------|------------|--------------|------------|------------|-------------|------------|
| Other        | 17,101     | (3,377)      | 13,724     | 16,680     | (3,377)     | 13,303     |
| <b>Total</b> | \$ 425,009 | \$ (138,205) | \$ 286,804 | \$ 400,039 | \$ (88,010) | \$ 312,029 |

## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

## 12. Derivatives

Fair value gains and losses on our derivatives are comprised of the following amounts:

|                                     | Three months ended<br>September 30, |                 | Nine months ended<br>September 30, |                 |
|-------------------------------------|-------------------------------------|-----------------|------------------------------------|-----------------|
|                                     | 2009                                | 2008            | 2009                               | 2008            |
| Riverstone Resources, Inc. warrants | \$ (71)                             | \$ 167          | \$ (95)                            | \$ 112          |
| Forward currency agreements         |                                     | 116             |                                    | 241             |
| EURO Ressources S.A. shares         |                                     | 23              |                                    | 196             |
| Gold forward price contracts        | 925                                 | 1,089           | 1,033                              | 1,089           |
| Structured gold options             | 149                                 |                 | 149                                |                 |
| <b>Derivative (gain)/loss</b>       | <b>\$ 1,003</b>                     | <b>\$ 1,395</b> | <b>\$ 1,087</b>                    | <b>\$ 1,638</b> |
|                                     |                                     |                 |                                    |                 |
|                                     | Three months ended<br>September 30, |                 | Nine months ended<br>September 30, |                 |
|                                     | 2009                                | 2008            | 2009                               | 2008            |
| Realized (gain)/loss                | \$ 450                              | \$ 139          | \$ 2,825                           | \$ 437          |
| Unrealized (gain)/loss              | 553                                 | 1,256           | (1,738)                            | 1,201           |
| <b>Derivative (gain)/loss</b>       | <b>\$ 1,003</b>                     | <b>\$ 1,395</b> | <b>\$ 1,087</b>                    | <b>\$ 1,638</b> |

*Riverstone Resources Inc. Warrants*

In the first quarter of 2008, we received 2 million warrants from Riverstone Resources Inc. ( Riverstone ) as partial payment for the right to earn an ownership interest in our exploration projects in Burkina Faso. These warrants are exercisable through January of 2012 at prices between Cdn \$0.30 and Cdn \$0.45, depending on the timing of exercise.

*Forward Currency Agreements South African Rand*

In the fourth quarter of 2007, we entered into a series of forward currency agreements totaling \$5.1 million for the purchase of South African Rand ( Rand ). These contracts were taken out to secure known US dollar costs of a purchase contract stated in Rand. These forward contracts matured ratably between October 28, 2007 and April 25, 2008 at rates between 6.994 and 7.184 Rand to the US dollar. At September 30, 2009, there are no forward currency agreements in place.

*EURO Ressources S.A. Shares*

In 2007, we renegotiated sections of certain agreements with EURO Ressources S.A. ( EURO ) including the timing and amounts of possible future royalty payments and certain commitments under exploration property earn-ins. In addition, and as part of these renegotiations, we agreed to make some of our remaining EURO shares available to EURO to deliver against certain options EURO granted to its directors. This, plus existing options granted to GSR directors, brought the number of our shares in EURO that were subject to option agreements to 530,000. As a result, we recorded a derivative liability to recognize the cost of the EURO shares that we may make available in the future to members of EURO s management who hold the options. In December 2008, EURO was acquired by a Canadian gold mining company and all outstanding options were exercised.

*Gold Forward Pricing Contracts*

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In response to a significant increase in gold price volatility in the past year, we entered into a series of short-term (less than 90 days) forward gold pricing contracts. During the first three quarters of 2009 the realized net result of these agreements was a loss of \$2.8 million. These contracts had unrealized gains of \$0.5 million as of the end of the second quarter of 2009 and resulted in a recognized net loss on gold forward price contracts of \$0.9 million in the third quarter of 2009. As of September 30, 2009 we held no unmatured gold forward pricing contracts.

### *Structured Gold Options*

At September 30, 2009, the fair value of the outstanding contracts is estimated to be \$0.1 million resulting in an unrealized loss of \$0.1 million in the third quarter of 2009. At September 30, 2009 we had option agreements on 50,000 ounces all of which expire prior to December 31, 2009. These agreements, which cover approximately one half of our expected gold sales in the fourth quarter, are structured to guarantee a minimum price of \$950 per ounce and have a maximum price of \$1,057 per ounce

## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

**13. Asset retirement obligations**

At the end of each period, Asset Retirement Obligations ( ARO ) are equal to the present value of all estimated future costs required to remediate environmental disturbances that exist as of the end of the period, using discount rates applicable at the time of initial recognition of each component of the liability. Included in this liability are the costs of closure, reclamation, demolition and stabilization of the mines, processing plants, infrastructure, tailings disposal facilities, waste dumps and ongoing post-closure environmental monitoring and maintenance 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 interim costs are recorded against the asset retirement obligation liability as incurred. At September 30, 2009, the total, undiscounted amount of the estimated future cash needs is estimated to be \$ 55 million. The changes in the carrying amount of the ARO during the first nine months of 2009 are as follows:

|                                    | Nine months ended<br>September 30, |                  |
|------------------------------------|------------------------------------|------------------|
|                                    | 2009                               | 2008             |
| Balance at January 1               | \$ 31,655                          | \$ 18,919        |
| Accretion expense                  | 1,616                              | 585              |
| Additions and change in estimates  | 450                                | 742              |
| Cost of reclamation work performed | (1,212)                            | (759)            |
| <b>Balance at September 30</b>     | <b>\$ 32,509</b>                   | <b>\$ 19,487</b> |
| Current portion                    | 1,858                              | 2,178            |
| Long term portion                  | \$ 30,651                          | \$ 17,309        |

**14. Debt**

|                                     | As of                 |                      |
|-------------------------------------|-----------------------|----------------------|
|                                     | September 30,<br>2009 | December 31,<br>2008 |
| <b>Current debt:</b>                |                       |                      |
| Debt facility                       | \$                    | \$ 626               |
| Equipment financing credit facility | 10,256                | 12,152               |
| <b>Total current debt</b>           | <b>\$ 10,256</b>      | <b>\$ 12,778</b>     |
| <b>Long term debt:</b>              |                       |                      |
| Revolving credit facility           | \$ 2,348              | \$                   |
| Equipment financing credit facility | 11,849                | 18,911               |
| Convertible debentures              | 99,162                | 93,738               |
| <b>Total long term debt</b>         | <b>\$ 113,359</b>     | <b>\$ 112,649</b>    |

***Equipment financing credit facility***

Our subsidiaries, Golden Star (Bogoso/Prestea) Ltd ( GSBPL ) and Golden Star (Wassa) Ltd ( GSWL ), maintain an equipment financing facility with Caterpillar Financial Services Corporation, with Golden Star as the guarantor of all amounts borrowed. The facility provides credit for new and used mining equipment and is secured by the mobile 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 London Interbank Offered Rate ( LIBOR ) plus 2.38%. During the third quarter of 2009, Caterpillar

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Financial Services Corporation reduced the facility limit from \$40 million to \$35 million. At September 30, 2009, approximately \$13.0 million was available to draw down. The average interest rate on the outstanding loans was approximately 7.8% at September 30, 2009. Each outstanding equipment loan is secured by the title of the specific equipment purchased with the loan until the loan has been repaid in full.

### ***Revolving credit facility***

On May 1, 2009, we entered into a \$30.0 million revolving credit facility (the Facility ) pursuant to an agreement (the Facility Agreement ) between Standard Chartered Bank, and certain of our subsidiaries, which together own the Bogoso/Prestea, Wassa and HBB properties. The term of the Facility Agreement extends through September 30, 2012. The amount available under the Facility will be reduced by \$3.0 million on December 31, 2010 and by an additional \$6.0 million on December 31, 2011. As of September 30, 2009, we had drawn an outstanding balance of \$5.0 million under the Facility.

## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

Loans made pursuant to the Facility Agreement bear interest at (i) the higher of the applicable LIBOR and an alternative base rate (based on a lender's cost of funds and capped at 1.25% above LIBOR) plus (ii) a margin of 5% plus (iii) an additional interest rate (if applicable) to compensate the lender for certain bank or regulatory authority compliance costs. The commitment fee on undrawn amounts is 2.5% per annum. In addition, we paid approximately \$3.0 million in fees and costs which have been capitalized as loan costs and which will be amortized over the life of the loan.

Amounts borrowed under the Facility Agreement can be used for working capital and general corporate purposes; provided, however, that we must obtain written consent of the lender if the loan proceeds are applied to acquisitions, or to projects or other operations not located in Ghana, or if the total loan proceeds used for such purpose in any period of twelve consecutive months would be in excess of \$25 million.

Obligations under the Facility are secured by, among other things, the Bogoso/Prestea and Wassa inventory and receivables and the common shares of certain material subsidiaries. The Facility Agreement contains certain standard continuing covenants and agreements and requires Golden Star to maintain certain financial ratios. Golden Star was in compliance with its covenants at September 30, 2009.

*Convertible debentures*

On November 8, 2007, we completed the sale of \$125 million aggregate principal amount of 4.0% Convertible Senior Unsecured Debentures due November 30, 2012 (the Debentures). Interest on the Debentures is payable semi-annually in arrears on May 31 and November 30 of each year. Each Debenture is, subject to certain limitations, convertible into common shares at a conversion rate of 200 shares per \$1,000 principal amount of debentures (equal to an initial conversion price of \$5.00 per share) subject to adjustment under certain circumstances. The Debentures are not redeemable at our option.

We have accounted for the fair value of the conversion feature as equity. The issuance date fair value of the Company's obligation to make principal and interest payments was estimated at \$89.1 million and was recorded as convertible senior unsecured debentures. The issuance date fair value of the holder's conversion option was estimated at \$35.9 million and was recorded as the equity component of convertible debentures. Fees totaling \$4.7 million relating to the issuance of these debentures were allocated pro-rata between deferred financing fees of \$3.4 million and equity of \$1.3 million.

*Debt facility*

On October 11, 2006, GSBPL entered into an agreement for a \$15.0 million debt facility with two Ghana-based banks. The final payment on this loan was made in the first quarter of 2009.

**15. Income taxes**

The provision for income taxes includes the following components:

|                           | Three months ended |      | Nine months ended |      |
|---------------------------|--------------------|------|-------------------|------|
|                           | September 30,      |      | September 30,     |      |
|                           | 2009               | 2008 | 2009              | 2008 |
| Current benefit/(expense) |                    |      |                   |      |
| Canada                    | \$                 | \$   | \$                | \$   |
| Foreign                   | (616)              |      | (616)             |      |
| Future benefit/(expense)  |                    |      |                   |      |
| Canada                    |                    |      |                   |      |
| Foreign                   | 3,196              |      | 8,618             |      |
| Total benefit/(expense)   | \$ 2,580           | \$   | \$ 8,002          | \$   |

The future tax benefit is related to the reduction of the temporary difference between book and tax basis related to the Hwini-Butre and Benso properties.



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The current tax expense is related to the fact that at the end of July 2009, the Ghanaian government introduced a temporary levy on certain Ghanaian industries, including mining, brewing, banking, communications and insurance. The new law establishing the levy was made public in August 2009. The bill indicates that companies subject to the levy will pay an amount equal to 5% of profits before tax as found on the statements of operations prepared in accordance with Ghanaian GAAP.

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**GOLDEN STAR RESOURCES LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)**

**16. Commitments and contingencies**

Our commitments and contingencies include the following items:

***Environmental bonding in Ghana***

In 2005, pursuant to a reclamation bonding agreement between the Ghana Environmental Protection Agency ( 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 of our obligation covered by a letter of credit. In 2008, the GSBPL letter of credit was increased to \$9.1 million to cover new mining areas. The cash deposits are recorded as Restricted Cash in our balance sheet.

In 2008, the EPA required Bogoso/Prestea to resubmit their Environmental Management Plan ( EMP ) with an updated estimate of the reclamation and closure costs prepared by a third party consultant. A consultant was commissioned to prepare the cost estimate and the EMP was submitted to the EPA in February, 2009. The EPA approved the EMP and issued the Environmental Certificate, which is valid for three years. The Wassa EMP was submitted to the EPA for review and comment in mid-2009. We anticipate final EPA approval by the end of 2009.

***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. As 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 and progressively increases 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 percentage paid is based on a company's gross margin (as defined by the royalty law). 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. In May 2009 GSWL bought the right to collect this 1.5% royalty which in effect ended the requirement to pay it.

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

**Prestea Underground** Areas of the Prestea Underground below a point 150 meters below sea level are 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 our former joint venture partner in the Prestea Underground. While we believe that the joint venture agreement provides for the 2.5% net profit interest, confirmation of this position has not been received from the bankruptcy trustee.

**Hwini-Butre** As part of the agreement for the purchase of the Hwini-Butre properties, we agreed to pay the seller an additional \$1.0 million if at least one million ounces of gold are produced and recovered in the first five years of production from the area covered by the Hwini-Butre prospecting license. Hwini-Butre's Probable Mineral reserves stood at 380,000 ounces at the end of 2008. While we continue to explore the Hwini-Butre property we can not predict if further discoveries will increase reserves to over 1.0 million ounces and trigger the contingent

payment.

**Goulagou and Rounga** In October 2007, we entered into an option agreement with Riverstone Resources Inc. ( Riverstone ) whereby Riverstone has the right to acquire our 90% interest in the Goulagou and Rounga properties in Burkina Faso. To exercise the option, Riverstone is required to spend Cdn\$4 million on exploration programs on the Goulagou and Rounga properties over a four-year period, and may then purchase our interest for \$18.6 million in cash or Riverstone common shares. We are entitled to receive up to 2 million shares of Riverstone over the term of the option, of which 0.7 million shares have been received as of September 30, 2009. In addition we received 2 million common share purchase warrants of Riverstone during 2008. The Riverstone purchase warrants have exercise prices that range from Cdn\$0.30 to Cdn\$0.45.

**Paul Isnard** Golden Star has agreed to pay a royalty to EURO on all future gold production, if any, from the Paul Isnard property up to 5.0 million ounces. Gold production in excess of 5.0 million ounces will not be subject to the royalty. The royalty varies from 10% of the difference between the market price of gold per ounce and \$400, for all gold sales up to 2.0 million ounces and 5% of the same for gold sales between 2.0 million and 5.0 million ounces. Furthermore, we have agreed, subject to completion of a positive

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**GOLDEN STAR RESOURCES LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)**

feasibility study, to pay an annual \$1.0 million advance royalty to EURO beginning September 2010 and continuing until such time as the Paul Isnard property begins mining and selling gold. The total advance royalty payments will be deducted from royalties payable during the production period on the first 2.0 million ounces.

In February 2008, EURO applied for renewal of its prospecting permits for portions of the Paul Isnard property. In connection with the permit renewal we guaranteed the French mining authorities that we would spend at least 0.6 million on the Paul Isnard property before the end of 2010. At any time during the three years we can elect to drop the prospecting permits and forego the spending.

We reduced exploration activities at Paul Isnard following the French government's announcement that it has suspended granting mining licenses pending the outcome of an environmental review of all French Guiana gold exploration areas. Based on recent values of gold properties in French Guiana, Paul Isnard carrying value was reduced to approximately \$2 million in the third quarter of 2009.

See the *Litigation* section below for information about legal actions affecting Paul Isnard.

**Bogoso Power Plant** Construction was initiated in the first quarter of 2008 by Genser Power Ghana Limited ( Genser ) on a nominal 20 megawatt stand-by power plant at Bogoso known as the Genser power plant. This plant is planned for use in periods of power outages or shortages in Ghana. As collateral for a letter of credit issued in connection with the project, we restricted \$3.7 million of cash in March of 2008 as required by the bank providing the letter of credit.

The initial amount of the letter of credit was \$2.0 million, but increased each month after initiation of construction and reached a maximum of approximately \$7.0 million in the fourth quarter of 2008. The letter of credit has progressively decreased since reaching the \$7.0 million maximum, and it will continue to decrease until it reaches nil at the end of the 30 months following the initiation of construction. At any point in the first 30 months we can terminate the contract by making a payment to Genser equal to the remaining balance on the letter of credit. If such payment is made, Genser will return the letter of credit and the title to the power plant will be transferred to us. If the contract is terminated after 30 months, title to the plant will transfer to us for no consideration.

Once the power plant is completed, we have agreed to purchase electric power from the Genser plant as needed and make payments in accordance with the following formulas: in months where our average monthly demand is equal to or less than 10 megawatts, we will pay Genser \$295,200 per month plus the cost of fuel regardless of the amount of power used. In months where our average monthly demand exceeds 10 megawatts, we will pay Genser \$0.030/kilowatt hour for amounts in excess of 10 megawatts plus fuel costs. Completion of the power plant is expected in the next few months.

***Litigation***

**EURO Resources S.A. Action** In September 2008, we issued a statement of claim in Ontario against EURO and its subsidiary Société de Travaux Publics et de Mines Aurifères en Guyane S.A.R.L. ( SOTRAPMAG ). The statement of claim seeks to have EURO transfer the Paul Isnard Permis Exclusif de Recherches ( PER ) and the shares of SOTRAPMAG (which holds eight mineral concessions in the Paul Isnard area of French Guiana (together with the PER, the Paul Isnard Properties )) to us in compliance with EURO's obligations under certain agreements between the parties, as well as monetary damages.

In September 2008, EURO commenced litigation in British Columbia concerning our ownership of mineral rights at the Paul Isnard gold property in French Guiana. EURO asked the courts to confirm our repudiation of an option agreement on Paul Isnard, and EURO sought unspecified damages.

In December 2008, a Canadian gold mining entity acquired a controlling interest in EURO. We are pursuing discussions with the new owner of the controlling interest regarding settlement of the litigation and the ultimate transfer of the Paul Isnard properties to us as agreed in an a 2004 earn-in option agreement.

**B.D. Goldfields Action** On August 29, 2008 B.D. Goldfields, Ltd., a Ghanaian registered company, and a shareholder of B.D. Goldfields, Ltd. filed suit in the United States District Court of the District of Colorado (the Court ) against Golden Star Resources Ltd. and our subsidiary St. Jude Resources Ltd. The plaintiffs challenged the validity of the various concession contracts and settlements related to the Hwini-Butre gold property in Ghana. The Company filed a motion to dismiss with the Court on November 6, 2008. The Court granted the Company's motion to

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dismiss and issued its Order of Dismissal on May 8, 2009, with judgment entered in favor of us on May 12, 2009. The Order of Dismissal and Judgment (the Judgment) dismissed with prejudice all claims against Golden Star and St. Jude Resources Ltd. for lack of jurisdiction. In addition, the Court awarded us certain attorneys' fees and costs.

After entry of the Judgment, the plaintiffs filed a post-judgment motion to alter the Judgment. We opposed the post-judgment motion and on September 28, 2009, the Court denied the motion. Accordingly, the Judgment is final.

Meanwhile, on June 12, 2009, the plaintiffs also appealed the Judgment to the United States Court of Appeals for the Tenth Circuit (the Appeals Court). On June 26, 2009, we filed a motion to dismiss the appeal for lack of jurisdiction. On July 10, 2009, the Appeals Court dismissed the appeal. Accordingly, the case now has been closed at the trial and appellate levels except for issues concerning the Company's recovery of attorneys' fees and costs from the plaintiffs.

## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

**Ghana Crop Damage Action** In October 2008, a Ghanaian court awarded plaintiffs approximately \$1.9 million in damages against GSBPL in a legal action filed against GSBPL in 2000 related to a 1991 crop damage claim. The plaintiffs claimed that emissions from a now defunct processing plant at Bogoso, which was operating in 1991, injured the plaintiffs cocoa trees and reduced their cocoa output. We appealed the judgment in late 2008. In July 2009, the Ghana Court of Appeals upheld the lower court's ruling but reduced the award to the plaintiffs to approximately \$930,000. We have initiated an appeal of the decision to the Ghana Supreme Court seeking to dismiss the suit.

**17. Share Capital**

Changes in share capital during the nine months ended September 30, 2009 are as follows:

|                               | Shares      | Amount     |
|-------------------------------|-------------|------------|
| Balance at December 31, 2008  | 235,945,311 | \$ 615,463 |
| Common shares issued:         |             |            |
| Equity offering (net)         |             |            |
| Option exercises              | 799,250     | 981        |
| Balance at September 30, 2009 | 236,744,561 | \$ 616,444 |

**18. Cost of Sales**

|  | Three months ended    |           | Nine months ended     |            |
|--|-----------------------|-----------|-----------------------|------------|
|  | September 30,<br>2009 | 2008      | September 30,<br>2009 | 2008       |
| Mining operations costs                                  | \$ 65,061             | \$ 61,535 | \$ 182,800            | \$ 169,183 |
| Change in inventories (costs from/(to) metals inventory) | 1,309                 | 5,343     | 1,734                 | (5,633)    |
| Mining related depreciation and amortization             | 29,332                | 13,917    | 82,368                | 37,205     |
| Accretion of asset retirement obligations                | 539                   | 222       | 1,616                 | 585        |
| Total Cost of Sales                                      | \$ 96,241             | \$ 81,017 | \$ 268,518            | \$ 202,342 |

**19. Stock based compensation**

**Stock Options** We have one stock option plan, the Second Amended and Restated 1997 Stock Option Plan (the "Plan"), under which options are granted from time to time at the discretion of the Board of Directors. 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 which 1,578,158 are available for grant as of September 30, 2009. Options take the form of non-qualified stock options, and the exercise price of each option is not less than the closing price of our shares on the Toronto Stock Exchange on the day prior to 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 Board of Directors.

During the first half of 2009, the remaining 216,000 of our outstanding options issued to employees of St. Jude in exchange for St. Jude options upon the St. Jude acquisition in 2005, were exercised. All figures shown below include the affects of these options issued to St. Jude employees.

## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

Non-cash employee compensation expense recognized in the statements of operations with respect to the Plan are as follows:

|  | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |          |
|--|-------------------------------------|--------|------------------------------------|----------|
|  | 2009                                | 2008   | 2009                               | 2008     |
| Total stock compensation expense during the period | \$ 424                              | \$ 436 | \$ 1,489                           | \$ 1,575 |

We granted 1.7 million options during the nine months ended September 30, 2009.

The fair value of our options grants are estimated at the grant dates using the Black-Scholes option-pricing model. Fair values of options granted in the first nine months of 2009 were based on the assumptions noted in the following table:

|                         | Nine months ended September 30, |                 |
|-------------------------|---------------------------------|-----------------|
|                         | 2009                            | 2008            |
| Expected volatility     | 68.39 to 73.28%                 | 47.52 to 61.97% |
| Risk-free interest rate | 1.88 to 2.94%                   | 2.89 to 3.32%   |
| Expected lives          | 4.25 to 6.5 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. 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 September 30, 2009 and changes during the quarter then ended is presented below:

|                                      | Options<br>( '000) | Weighted-Average<br>Exercise price<br>(Cdn\$) | Weighted-Average<br>Remaining<br>Contractual<br>Term (Years) |
|--------------------------------------|--------------------|---|--|
| Outstanding as of December 31, 2008  | 7,478              | 3.23  | 5.9  |
| Granted                              | 1,655              | 1.84  | 9.4  |
| Exercised                            | (799)              | 1.40  |  |
| Forfeited, cancelled and expired     | (417)              | 2.78  |  |
| Outstanding as of September 30, 2009 | 7,917              | 3.14  | 6.1  |

|                                      |       |      |     |
|--------------------------------------|-------|------|-----|
| Exercisable as of September 30, 2009 | 4,959 | 3.41 | 6.1 |
|--------------------------------------|-------|------|-----|

**Stock Bonus Plan** We have 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 545,845 common shares had been issued as of September 30, 2009. No common shares were issued under the Bonus Plan during the nine months ended September 30, 2009.





## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

**20. Earnings per Common Share**

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

|   | Three months ended<br>September 30, |             | Nine months ended<br>September 30, |             |
|---|-------------------------------------|-------------|------------------------------------|-------------|
|   | 2009                                | 2008        | 2009                               | 2008        |
| Net loss  | \$ (2,342)                          | \$ (22,236) | \$ (3,108)                         | \$ (32,583) |
| Weighted average number of common shares (millions) | 236.5                               | 235.9       | 236.2                              | 235.6       |
| Dilutive securities:                                |                                     |             |                                    |             |
| Options   |                                     |             |                                    |             |
| Convertible debentures                              |                                     |             |                                    |             |
| Warrants  |                                     |             |                                    |             |
| Weighted average number of diluted shares           | 236.5                               | 235.9       | 236.2                              | 235.6       |
| Basic loss per share                                | \$ (0.010)                          | \$ (0.094)  | \$ (0.013)                         | \$ (0.138)  |

**21. Operations by segment and geographic area**

The following segment and geographic data includes revenues based on product shipment origin and long-lived assets based on physical location.

| As of and for the Three months ended September 30, | Bogoso/<br>Prestea | Africa<br>Wassa/<br>HBB | Other   | South<br>America | Corporate | Total      |
|--|--------------------|-------------------------|---------|------------------|-----------|------------|
| 2009   |                    |                         |         |                  |           |            |
| Revenues   | \$ 51,180          | \$ 52,624               | \$      | \$               | \$        | \$ 103,804 |
| Net income/(loss)                                  | (2,674)            | 10,726                  | (84)    | (2,850)          | (7,460)   | (2,342)    |
| Total assets                                       | 348,801            | 269,821                 | 8,149   | 9,406            | 35,069    | 671,246    |
| 2008   |                    |                         |         |                  |           |            |
| Revenues   | \$ 45,019          | \$ 19,080               | \$      | \$               | \$        | \$ 64,099  |
| Net income/(loss)                                  | (12,094)           | (4,150)                 | (1,791) | (310)            | (4,085)   | (22,430)   |
| Total assets                                       | 428,445            | 169,310                 | 144,864 | 12,277           | 16,787    | 771,683    |
| As of and for the Nine months ended September 30,  | Bogoso/<br>Prestea | Africa<br>Wassa/<br>HBB | Other   | South<br>America | Corporate | Total      |
| 2009   |                    |                         |         |                  |           |            |
| Revenues   | \$ 130,243         | \$ 153,074              | \$      | \$               | \$        | \$ 283,317 |
| Net income/(loss)                                  | (7,559)            | 29,489                  | (486)   | (3,460)          | (21,092)  | (3,108)    |
| Total assets                                       | 348,801            | 269,821                 | 8,149   | 9,406            | 35,069    | 671,246    |
| 2008   |                    |                         |         |                  |           |            |
| Revenues   | \$ 116,262         | \$ 71,451               | \$      | \$               | \$        | \$ 187,713 |
| Net income/(loss)                                  | (20,877)           | 6,515                   | (2,332) | (849)            | (15,736)  | (33,279)   |
| Total assets                                       | 428,445            | 169,310                 | 144,864 | 12,277           | 16,787    | 771,683    |

**22. Related parties**

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During the third quarter of 2009, we obtained legal services from a firm where our Chairman is of counsel. The cost of services incurred from this firm during the first nine months of 2009 and 2008 was \$0.4 million and \$0.4 million, respectively. Our Chairman did not personally perform any legal services to the Company during the nine month period ended September 30, 2009, nor in any prior period, nor did he benefit directly or indirectly from payments for the services performed by the firm.

## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

**23. Supplemental Cash Flow Information**

The following is a summary of significant non-cash transactions:

|  | Nine months ended<br>September 30, |        |
|--|------------------------------------|--------|
|  | 2009                               | 2008   |
| Available-for-sale investment acquired in exchange for property rights | \$ 38                              | \$ 118 |
| Warrants acquired in exchange for property rights                      |                                    | 233    |
| Transfer of EURO shares  |                                    | 89     |

The following is a summary of interest and income tax payments:

|                   | Nine months ended<br>September 30, |          |
|-------------------|------------------------------------|----------|
|                   | 2009                               | 2008     |
| Interest Paid     | \$ 4,242                           | \$ 4,800 |
| Income taxes Paid |                                    |          |

## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

**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.

**(a) Consolidated Balance Sheets in U.S. GAAP**

|  | As of<br>September 30,<br>2009 | As of<br>December 31,<br>2008 |
|--|--------------------------------|-------------------------------|
| <b>ASSETS</b>  |                                |                               |
| Current assets:                                      |                                |                               |
| Cash and cash equivalents                            | \$ 57,634                      | \$ 33,558                     |
| Accounts receivable                                  | 5,626                          | 4,306                         |
| Inventories  | 51,490                         | 49,134                        |
| Deposits   | 4,724                          | 3,875                         |
| Other current assets                                 | 677                            | 1,100                         |
| Total current assets                                 | 120,151                        | 91,973                        |
| Restricted cash                                      | 3,804                          | 4,249                         |
| Available-for-sale and long term investments         | 183                            | 29                            |
| Deferred exploration and development costs (Note d1) |                                |                               |
| Property, plant and equipment (Note d3)              | 238,338                        | 270,814                       |
| Intangible assets                                    | 10,007                         |                               |
| Mining properties (Notes d2 and d3)                  | 269,546                        | 291,823                       |
| Future tax asset (Note d4)                           |                                |                               |
| Other assets   | 5,590                          | 4,456                         |
| Total assets   | \$ 647,619                     | \$ 663,344                    |
| <b>LIABILITIES</b>                                   |                                |                               |
| Current liabilities (Note d5)                        | \$ 75,087                      | \$ 90,322                     |
| Long term debt (Note d6)                             | 167,053                        | 131,876                       |
| Asset retirement obligations                         | 30,651                         | 30,036                        |
| Future tax liability (Note d4)                       | 23,654                         | 31,959                        |
| Total liabilities                                    | 296,445                        | 284,193                       |
| Commitments and contingencies                        |                                |                               |
| <b>SHAREHOLDERS' EQUITY</b>                          |                                |                               |
| Share capital (Note d7)                              | 616,078                        | 615,097                       |
| Contributed surplus (Note d6)                        | 15,693                         | 14,205                        |
| Accumulated comprehensive income                     | 1,343                          | 1,228                         |
| Deficit  | (282,542)                      | (251,379)                     |
| Total Golden Star Resources' equity                  | 350,572                        | 379,151                       |
| Noncontrolling Interest                              | 602                            |                               |

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|  |            |            |
|--|------------|------------|
| Total Equity                               | 351,174    | 379,151    |
| Total liabilities and shareholders' equity | \$ 647,619 | \$ 663,344 |

## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

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

|   | Three months ended<br>September 30, |             | Nine months ended<br>September 30, |             |
|---|-------------------------------------|-------------|------------------------------------|-------------|
|   | 2009                                | 2008        | 2009                               | 2008        |
| Net loss under Cdn GAAP   | \$ (2,342)                          | \$ (22,430) | \$ (3,108)                         | \$ (33,279) |
| Deferred exploration expenditures expensed under US GAAP (Note d1 and d2) | (928)                               | (8,046)     | (1,598)                            | (14,260)    |
| Write-off of deferred exploration properties (Note d1)                    | 2,787                               | 1,429       | 3,077                              | 1,429       |
| Loan fee amortization   | (66)                                | (58)        | (242)                              | (206)       |
| Derivative gain on non-US\$ warrants (Note d5)                            |                                     | 184         |                                    | 954         |
| Reverse depreciation on assets already written off for US GAAP            | 838                                 | 683         | 3,937                              | 648         |
| Fair value adjustment on debentures (Note d6)                             | (22,600)                            | 10,646      | (37,239)                           | 12,533      |
| Debt Accretion Reversal   | 1,669                               | 1,562       | 4,926                              | 4,609       |
| Other   |                                     | 1,457       |                                    | 1,457       |
| Net loss before income tax under US GAAP                                  | (20,642)                            | (14,573)    | (30,247)                           | (26,115)    |
| Income tax benefit/(expense) adjustment (Note d4)                         | (116)                               |             | (314)                              |             |
| Net income/(loss) under US GAAP   | \$ (20,758)                         | \$ (14,573) | \$ (30,561)                        | \$ (26,115) |
| Net income/(loss) attributable to noncontrolling interest                 | \$ (354)                            | \$ 586      | \$ 602                             | \$ 667      |
| Net loss attributable to Golden Star Resources                            | \$ (20,404)                         | \$ (15,159) | \$ (31,163)                        | \$ (26,782) |
| Basic and diluted net loss per share under US GAAP                        | \$ (0.086)                          | \$ (0.064)  | \$ (0.132)                         | \$ (0.114)  |
| Consolidated Statement of Comprehensive Loss under US GAAP                |                                     |             |                                    |             |
| Net loss under US GAAP  | \$ (20,758)                         | \$ (14,573) | \$ (30,561)                        | \$ (26,115) |
| Other comprehensive income on marketable securities                       | 74                                  | (5,555)     | 115                                | (2,950)     |
| Comprehensive loss under US GAAP  | \$ (20,684)                         | \$ (20,128) | \$ (30,446)                        | \$ (29,065) |
| Comprehensive income/(loss) attributable to noncontrolling interest       | \$ (354)                            | \$ 586      | \$ 602                             | \$ 667      |
| Comprehensive loss attributable to Golden Star Resources                  | \$ (20,330)                         | \$ (20,714) | \$ (31,048)                        | \$ (29,732) |

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

|  | Three months ended<br>September 30, |             | Nine months ended<br>September 30, |             |
|--|-------------------------------------|-------------|------------------------------------|-------------|
|  | 2009                                | 2008        | 2009                               | 2008        |
| Cash provided by (used in):                      |                                     |             |                                    |             |
| Operating activities (Note d8)                   | \$ 25,372                           | \$ (10,110) | \$ 65,075                          | \$ (11,671) |
| Investing activities (Note d8)                   | (7,425)                             | (3,225)     | (35,214)                           | (38,482)    |
| Financing activities                             | (3,486)                             | 1,475       | (5,785)                            | (314)       |
| Increase/(decrease) in cash and cash equivalents | 14,461                              | (11,860)    | 24,076                             | (50,467)    |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Cash and cash equivalent beginning of period | 43,173    | 37,147    | 33,558    | 75,754    |
| Cash and cash equivalents end of period      | \$ 57,634 | \$ 25,287 | \$ 57,634 | \$ 25,287 |

**(d) Notes:**

- (1) Under US GAAP, exploration, acquisition (except for property purchase costs), and general and administrative costs related to exploration projects are charged to expense as incurred. Under Cdn GAAP, exploration, acquisition and direct general and administrative costs related to exploration projects are capitalized. In each subsequent period, the exploration, engineering, financial and market information for each exploration project is reviewed by management to determine if any of the capitalized costs are impaired. If found impaired, the asset's cost basis is reduced in accordance with Cdn GAAP provisions. Amounts written off in the current year under Cdn GAAP, which have previously been expensed under US GAAP, result in an adjustment when reconciling net income for the year.

## GOLDEN STAR RESOURCES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)

- (2) Under US GAAP, the initial purchase cost of mining properties is capitalized. Pre-acquisition costs and subsequent development costs incurred, until a final feasibility study is completed, are expensed in the period incurred. Under Cdn GAAP, the purchase costs of new mining properties as well as all development costs incurred after acquisition are capitalized and subsequently reviewed each period for impairment. If found impaired, the asset's cost basis is reduced in accordance with Cdn GAAP provisions. Amounts written off in the current year under Cdn GAAP, which have previously been expensed under US GAAP, result in an adjustment when reconciling net income for the year.
- (3) Under US GAAP new production facilities are placed in service once the facility has been constructed and fully tested to the point where it is available for regular and sustained use. Under Cdn GAAP, new production facilities are placed in service when output reaches a significant portion of the facility's design capacity. The difference in timing of placing assets in service, in addition to the difference in amounts capitalized in note d1 & d2, create depreciation differences between Cdn GAAP and US GAAP. When the company adopted CICA 3064 for Cdn GAAP, the difference related to start up costs between US GAAP and Cdn GAAP has been reduced. The remaining difference is related to stripping costs incurred between the US GAAP in-service date and the Cdn GAAP in-service date.
- (4) While tax accounting rules are essentially the same under both US and Cdn GAAP, tax account differences can arise from differing treatment of various assets and liabilities. For example, most exploration expenditures and certain mine developments cost are capitalized under Cdn GAAP and expensed under US GAAP, as explained in notes 1 and 2 above. An analysis of these differences indicates that there are larger potential tax benefits under US GAAP than under Cdn GAAP in the GSBPL and GSWL tax jurisdiction, but a valuation allowance has been applied to all amounts as of September 30, 2009.

On January 1, 2007, we adopted the provisions of FIN 48 (AS CODIFIED IN ASC TOPIC 740 INCOME TAXES ) for US GAAP purposes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that we recognize in our consolidated financial statements, only those tax positions that are more-likely-than-not of being sustained as of the adoption date, based on the technical merits of the position. As a result of the implementation of FIN 48, we performed a comprehensive review of our material tax positions in accordance with recognition and measurement standards established by FIN 48. Based on this review, the provisions of FIN 48 had no effect on our financial position, cash flows or results of operations at September 30, 2009 or December 31, 2008.

We and our subsidiaries are subject to the following material taxing jurisdictions: Ghana, Canada and Burkina Faso. The tax years that remain open to examination by the Ghana Internal Revenue Service are years 2001 through 2008. The tax years that remain open to examination by Revenue Canada are years 2003 through 2008. All tax years remain open to examination in Burkina Faso. Our policy is to recognize interest and penalties related to uncertain tax benefits in income tax expense. We have no accrued interest or penalties related to uncertain tax positions as of September 30, 2009.

- (5) Under US GAAP the fair value of warrants denominated in currencies other than the company's functional currency are treated as a derivative liability. The derivative liability of such warrants is marked to market at the end of each period and the change in fair value is recorded in the statement of operations. Under Cdn GAAP the issue-date fair values of all warrants is treated as a component of shareholders' equity and are recorded as contributed surplus and are not subsequently marked to their fair value.
- (6) Under Cdn GAAP, the fair value of the conversion feature of convertible debt and the related loan fees allocated to the conversion feature are classified as equity and the balances are classified as a liability. The liability portion is accreted each period in amounts which will increase the liability to its full face amount of the convertible instrument as of the maturity date. Periodic accretion charges are recorded as interest expense. For US GAAP purposes, the entire amount of convertible debt is classified as a liability and recorded at fair value at the end of each period, with the change in fair value recorded in the statement of operations in accordance with FAS 155.
- (7) Numerous transactions since the Company's organization in 1992 have contributed to the difference in share capital versus the Cdn GAAP balance, including: (i) under US GAAP, compensation expense was recorded for the difference between quoted market prices and the strike price of options granted to employees and directors under stock option plans while under Cdn GAAP, recognition of compensation expense was not required; (ii) in May 1992 our accumulated deficit was eliminated through an amalgamation (defined as a quasi-reorganization under US GAAP) under US GAAP the cumulative deficit was greater than the deficit under Cdn GAAP due to the past write-offs of certain deferred exploration costs; and (iii) gains recognized in Cdn GAAP upon issuances of subsidiaries' shares are not



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allowed under US GAAP.

- (8) Under US GAAP, exploration expenditures are treated as operating cash flows. Cdn GAAP treats certain exploration expenditures as investing cash flows (see note 1). This creates differences in the statement of cash flows.
- (9) Impact of recently issued Accounting Standards

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**GOLDEN STAR RESOURCES LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)**

***Recently Adopted Standards***

**Codification of US GAAP** In July 2009 US GAAP switched to a completely new codification scheme aimed to make US GAAP accounting research easier. The old system was a compilation of several unrelated labeling systems and sub systems (FASB system, SEC system, etc.) that were poorly cross-referenced and as a result it was very difficult when doing research to know if all applicable GAAP had been found when researching a particular subject. The new codifications are organized by ASC Topics. These topics are referenced below.

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, **Disclosures about Derivative Instruments and Hedging Activities - An Amendment of SFAS No. 133** (SFAS 161). SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires (1) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (2) the disclosure of derivative features that are credit risk-related; and (3) cross-referencing within footnote disclosures to enable financial statement users to locate important information about derivative instruments. This statement is effective for us on January 1, 2009 and did not have a material impact on our Consolidated Financial Statements. This revision is reflected in ASC Topic 815 **Derivatives and Hedging**.

In December 2007, the FASB issued SFAS No. 160, **Non-controlling Interests in Consolidated Financial Statements** (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary (minority interest) is an ownership interest in the consolidated entity that should be reported as equity in the Consolidated Financial Statements and separate from the parent company's equity. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the Consolidated Statement of Operations, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. This statement is effective for us on January 1, 2009. This revision is reflected in ASC Topic 810 **Consolidation**.

In May 2008, the FASB issued SFAS No. 162, **The Hierarchy of Generally Accepted Accounting Principles** (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS 162 will become effective 60 days following SEC approval of Public Company Accounting Oversight Board amendments to AU Section 411, **The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles**. The adoption of SFAS 162 will have no effect on the Company's financial statements. This revision is reflected in ASC Topic 105 **Generally Accepted Accounting Principles**.

In September 2006, the FASB issued SFAS No. 157, **Fair Value Measurements** (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 was effective for us on January 1, 2008 for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in our Consolidated Financial Statements on a recurring basis (at least annually). For all other nonfinancial assets and liabilities, this statement is effective for us on January 1, 2009. Also on April 9, 2009, FASB issued FSP FAS 157-4, **Determining Fair Value when the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly**. As it relates to our financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in our Consolidated Financial Statements, the adoption of SFAS 157 did not have a material impact. This revision is reflected in ASC Topic 820 **Fair Value Measurement and Disclosures**.

In May 2008, the FASB issued FSP No. APB 14-1. FSP APB 14-1 applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under FAS 133. The company elected FAS 155 for \$125 million convertible debenture that is currently outstanding. APB 14-1 does not have an impact on the company's financials. This revision is reflected in ASC Topic 470 **Debt**.

Statement of Financial Accounting Standards No. 165, **Subsequent Events**, (SFAS 165) is effective for financial statements ending after June 15, 2009. SFAS 165 establishes general standards of accounting for and disclosure of subsequent events that occur after the balance sheet date. Entities are also required to disclose the date through which subsequent events have been evaluated and the basis for that date. We have evaluated subsequent events through the date of issuance, November 6, 2009. This revision is reflected in ASC Topic 855 **Subsequent Events**.

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In August 2009, the FASB issued changes to fair value accounting for liabilities in ASC Topic 820 Fair Value Measurements and Disclosures . These changes clarify existing guidance that in circumstances in which a quoted price in an active market for the identical liability is not available, an entity is required to measure fair value using either a valuation technique that uses a quoted price of either a similar liability or a quoted price of an identical or similar liability when traded as an asset, or another valuation technique

**GOLDEN STAR RESOURCES LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(All currency amounts in tables and text are in thousands of US Dollars unless noted otherwise)**

that is consistent with the principles of fair value measurements, such as an income approach (e.g., present value technique). This guidance also states that both a quoted price in an active market for the identical liability and a quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. These changes become effective for the company on October 1, 2009. Management has determined that the adoption of these changes will not have an impact on the Financial Statements.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our Form 10-K for the period ended December 31, 2008 and with the accompanying unaudited consolidated financial statements and related notes for the period ended September 30, 2009. The financial statements have been prepared in accordance with Canadian GAAP. For a reconciliation to accounting principles generally accepted in the United States (US GAAP), see Note 24 to the consolidated financial statements. This Management's Discussion and Analysis of Financial Condition and Results of Operations include information available to November 6, 2009.

### OVERVIEW OF GOLDEN STAR

We are a Canadian federally incorporated, international gold mining and exploration company producing gold in Ghana, West Africa. We also conduct gold exploration in other countries in West Africa and in South America. Golden Star Resources Ltd. was established under the *Canada Business Corporations Act* on May 15, 1992 as a result of the amalgamation of South American Goldfields Inc., a corporation incorporated under the federal laws of Canada, and Golden Star Resources Ltd., a corporation originally incorporated under the provisions of the *Alberta Business Corporations Act* on March 7, 1984 as Southern Star Resources Ltd. Our principal office is located at 10901 West Toller Drive, Suite 300, Littleton, Colorado 80127, and our registered and records offices are located at 66 Wellington St. W, 42nd floor, Box 20, Toronto Dominion Bank Tower Toronto Dominion Centre, Toronto, ON M5K 1N6.

We own controlling interests in several gold properties in southwest Ghana:

Through a 90% owned subsidiary, Golden Star (Bogoso/Prestea) Limited (GSBPL), we own and operate the Bogoso/Prestea gold mining and processing operations (Bogoso/Prestea) located near the town of Bogoso, Ghana. We have a nominal 3.5 million tonnes per year processing facility at Bogoso/Prestea that uses bio-oxidation technology to treat refractory sulfide ore (sulfide plant). In addition, Bogoso/Prestea has a carbon-in-leach processing facility next to the sulfide plant which is suitable for treating oxide ores (oxide plant). Bogoso/Prestea produced and sold 170,499 ounces of gold in 2008.

Through another 90% owned subsidiary, Golden Star (Wassa) Limited (GSWL), we own and operate the Wassa open-pit gold mine and carbon-in-leach processing plant (Wassa), located approximately 35 kilometers east of Bogoso/Prestea. The design capacity of the carbon-in-leach processing plant at Wassa is nominally 3.0 million tonnes per annum but varies depending on the ratio of hard to soft ore. Wassa produced and sold 125,427 ounces of gold in 2008. GSWL also owns the Hwini-Butre and Benso concessions (the HBB properties) in southwest Ghana. The Benso mine began shipping ore to Wassa late in 2008, and the Hwini-Butre mine began shipping ore to Wassa in April 2009. The Hwini-Butre and Benso concessions are located approximately 80 and 50 kilometers, respectively, by road south of Wassa.

We also hold interests in several gold exploration projects in Ghana and elsewhere in West Africa including Sierra Leone, Burkina Faso, Niger and Côte d'Ivoire, and hold exploration properties in Suriname, Brazil and French Guiana in South America.

All of our operations, with the exception of certain exploration projects, transact business in US dollars and keep financial records in US dollars. Our accounting records are kept in accordance with Canadian GAAP. We are a reporting issuer or the equivalent in all provinces of Canada, in Ghana and in the United States and file disclosure documents with securities regulatory authorities in Canada and Ghana and with the United States Securities and Exchange Commission.

### NON-GAAP FINANCIAL MEASURES

In this Form 10-Q, we use the terms total cash cost per ounce and cash operating cost per ounce.

Cost of sales as found in our statement of operations includes all mine-site operating costs, including the costs of mining, processing, maintenance, work-in-process inventory changes including inventory write-offs and adjustments, mine-site overhead as well as production taxes, royalties, mine site depreciation, depletion, amortization, asset retirement obligation accretion and by-product credits, but does not include exploration costs, property holding costs, corporate office general and administrative expenses, impairment charges, corporate business development costs, gains and losses on asset sales, capital gains and losses on foreign currency conversions, interest expense, gains and losses on derivatives, gains and losses on investments and income tax expense/benefit.

Total cash cost per ounce for a period is equal to Cost of sales for the period less mining related depreciation and amortization costs, accretion of asset retirement obligation costs and operations-related foreign currency gains and losses for the period, divided by the number of ounces of gold sold during the period.

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Cash operating cost per ounce for a period is equal to Total cash costs for the period less royalties and production taxes, divided by the number of ounces of gold sold during the period.

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The following table shows the derivation of these measures:

|   | For the three months ended September 30, 2009 |                  |                  |
|---|---|------------------|------------------|
|   | Wassa   | Bogoso/Prestea   | Combined         |
| Mining operations costs                                 | \$ 27,548                                     | \$ 35,689        | \$ 63,237        |
| Royalties   | 1,615   | 1,536            | 3,151            |
| Costs (to)/from metals inventory                        | (2,142)                                       | 2,124            | (18)             |
| Mining related depreciation and amortization            | 16,637  | 12,695           | 29,332           |
| Accretion of asset retirement obligations               | 203   | 336              | 539              |
| <b>Cost of sales GAAP</b>                               | <b>\$ 43,861</b>                              | <b>\$ 52,380</b> | <b>\$ 96,241</b> |
| Less operations-related foreign exchange (gains)/losses | 127   | (435)            | (308)            |
| Less mining related depreciation and amortization       | (16,637)                                      | (12,695)         | (29,332)         |
| Less accretion of asset retirement obligations          | (203)   | (336)            | (539)            |
| <b>Total cash cost</b>                                  | <b>27,148</b>                                 | <b>38,914</b>    | <b>66,062</b>    |
| Less royalties and production taxes                     | (1,615)                                       | (1,536)          | (3,151)          |
| <b>Cash Operating Costs</b>                             | <b>25,533</b>                                 | <b>37,378</b>    | <b>62,911</b>    |
| <b>Ounces sold</b>                                      | <b>54,364</b>                                 | <b>53,069</b>    | <b>107,433</b>   |
| <b>Derivation of cost per ounce measures:</b>           |   |                  |                  |
| Total cash cost per ounce                               | \$ 499  | \$ 733           | \$ 615           |
| Cash operating cost per ounce                           | \$ 470  | \$ 704           | \$ 586           |
|   | For the three months ended September 30, 2008 |                  |                  |
|   | Wassa   | Bogoso/Prestea   | Combined         |
| Mining operations costs                                 | \$ 18,675                                     | \$ 40,936        | \$ 59,611        |
| Royalties   | 573   | 1,351            | 1,924            |
| Costs (to)/from metals inventory                        | (935)   | 6,278            | 5,343            |
| Mining related depreciation and amortization            | 4,715   | 9,202            | 13,917           |
| Accretion of asset retirement obligations               | 129   | 93               | 222              |
| <b>Cost of sales GAAP</b>                               | <b>\$ 23,157</b>                              | <b>\$ 57,860</b> | <b>\$ 81,017</b> |
| Less operations-related foreign exchange (gains)/losses | (219)   | (273)            | (492)            |
| Less mining related depreciation and amortization       | (4,715)                                       | (9,202)          | (13,917)         |
| Less accretion of asset retirement obligations          | (129)   | (93)             | (222)            |
| <b>Total cash cost</b>                                  | <b>18,094</b>                                 | <b>48,292</b>    | <b>66,386</b>    |
| Less royalties and production taxes                     | (573)   | (1,351)          | (1,924)          |
| <b>Cash Operating Costs</b>                             | <b>17,521</b>                                 | <b>46,941</b>    | <b>64,462</b>    |
| <b>Ounces sold</b>                                      | <b>22,083</b>                                 | <b>51,959</b>    | <b>74,042</b>    |
| <b>Derivation of cost per ounce measures:</b>           |   |                  |                  |
| Total cash cost per ounce                               | \$ 819  | \$ 929           | \$ 897           |
| Cash operating cost per ounce                           | \$ 793  | \$ 903           | \$ 871           |





|   | For the nine months ended September 30, 2009 |                   |                   |
|---|--|-------------------|-------------------|
|   | Wassa  | Bogoso/Prestea    | Combined          |
| Mining operations costs                                 | \$ 76,268                                    | \$ 97,318         | \$ 173,586        |
| Royalties   | 5,305  | 3,909             | 9,214             |
| Costs (to)/from metals inventory                        | (1,212)                                      | 2,946             | 1,734             |
| Mining related depreciation and amortization            | 50,382                                       | 31,986            | 82,368            |
| Accretion of asset retirement obligations               | 606  | 1,010             | 1,616             |
| <b>Cost of sales GAAP</b>                               | <b>\$ 131,349</b>                            | <b>\$ 137,169</b> | <b>\$ 268,518</b> |
| Less operations-related foreign exchange (gains)/losses | (437)  | (1,364)           | (1,801)           |
| Less mining related depreciation and amortization       | (50,382)                                     | (31,986)          | (82,368)          |
| Less accretion of asset retirement obligations          | (606)  | (1,010)           | (1,616)           |
| <b>Total cash cost</b>                                  | <b>79,924</b>                                | <b>102,809</b>    | <b>182,733</b>    |
| Less royalties and production taxes                     | (5,305)                                      | (3,909)           | (9,214)           |
| <b>Cash Operating Costs</b>                             | <b>74,619</b>                                | <b>98,900</b>     | <b>173,519</b>    |
| <b>Ounces sold</b>                                      | <b>164,041</b>                               | <b>139,375</b>    | <b>303,416</b>    |
| <b>Derivation of cost per ounce measures:</b>           |  |                   |                   |
| Total cash cost per ounce                               | \$ 487                                       | \$ 738            | \$ 602            |
| Cash operating cost per ounce                           | \$ 455                                       | \$ 710            | \$ 572            |

|   | For the nine months ended September 30, 2008 |                   |                   |
|---|--|-------------------|-------------------|
|   | Wassa  | Bogoso/Prestea    | Combined          |
| Mining operations costs                                 | \$ 49,443                                    | \$ 114,106        | \$ 163,549        |
| Royalties   | 2,147  | 3,489             | 5,637             |
| Costs (to)/from metals inventory                        | (2,480)                                      | (3,153)           | (5,633)           |
| Mining related depreciation and amortization            | 14,327                                       | 22,878            | 37,205            |
| Accretion of asset retirement obligations               | 286  | 299               | 585               |
| <b>Cost of sales GAAP</b>                               | <b>\$ 63,723</b>                             | <b>\$ 137,619</b> | <b>\$ 201,342</b> |
| Less operations-related foreign exchange (gains)/losses | (246)  | (396)             | (642)             |
| Less mining related depreciation and amortization       | (14,327)                                     | (22,878)          | (37,205)          |
| Less accretion of asset retirement obligations          | (286)  | (299)             | (585)             |
| <b>Total cash cost</b>                                  | <b>48,864</b>                                | <b>114,046</b>    | <b>162,910</b>    |
| Less royalties and production taxes                     | (2,147)                                      | (3,489)           | (5,636)           |
| <b>Cash Operating Costs</b>                             | <b>46,717</b>                                | <b>110,557</b>    | <b>157,274</b>    |
| <b>Ounces sold</b>                                      | <b>79,475</b>                                | <b>130,307</b>    | <b>209,782</b>    |
| <b>Derivation of cost per ounce measures:</b>           |  |                   |                   |
| Total cash cost per ounce                               | \$ 615                                       | \$ 875            | \$ 777            |
| Cash operating cost per ounce                           | \$ 588                                       | \$ 848            | \$ 750            |

We use total cash cost per ounce and cash operating cost per ounce as key operating indicators. We monitor these measures monthly, comparing each month's values to prior period's values to detect trends that may indicate increases or decreases in operating efficiencies. These measures are also compared against budget to alert management to trends that may cause actual results to deviate from planned operational results. We provide these measures to our investors to allow them to also monitor operational efficiencies of our mines. We calculate these measures for both individual operating units and on a consolidated basis.

Total cash cost per ounce and cash operating cost per ounce should be considered as non-GAAP financial measures as defined in SEC Regulation S-K Item 10 and in applicable Canadian securities laws and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. There are material limitations associated with the use of such non-GAAP measures. Since these measures do not incorporate revenues, changes in working capital and non-operating cash costs, they are not necessarily indicative of operating profit or cash flow from operations as determined under GAAP. Changes in numerous factors including, but not limited to, mining rates, milling rates, gold grade, gold recovery, costs of labor, consumables and mine site general and administrative activities can cause these measures to increase or decrease. We believe that these measures are the same as, or similar to, the measures of other gold mining companies, but may not be comparable to similarly titled measures in every instance.

## **BUSINESS STRATEGY AND DEVELOPMENT**

Our business and development strategy has been focused primarily on the acquisition of producing and development-stage gold properties in Ghana and on the exploration, development and operation of these properties. We have also pursued exploration activities in South America.

We acquired Bogoso in 1999 and have operated a nominal 1.5 million tonne per annum carbon-in-leach (CIL) processing plant most of the time since then to process oxide and other non-refractory ores (Bogoso oxide plant). In 2001, we acquired the Prestea property located adjacent to our Bogoso property and mined surface deposits at Prestea from late 2001 to late 2006. In late 2002, we acquired Wassa, and constructed a new nominal 3.0 million tonne per annum CIL processing plant at Wassa, which began commercial operation in April 2005. In July 2007, we completed construction and development of a new nominal 3.5 million tonnes per annum processing facility at Bogoso/Prestea that uses bio-oxidation technology to treat refractory sulfide ore (Bogoso sulfide plant).

In late 2005, we acquired the HBB properties consisting of the Benso and Hwini-Butre properties. Benso development activities started in late 2007, and in the third quarter of 2008, Benso began trucking ore to the Wassa plant for processing. Hwini-Butre development was initiated in the fourth quarter of 2008, and in April 2009 Hwini-Butre began shipping ore to the Wassa plant for processing.

Our overall objective is to grow our business to become a mid-tier gold producer. We continue to evaluate potential acquisition and merger opportunities that could further increase our annual gold production. However, we presently have no agreement or understanding with respect to any specific potential transaction.

In addition to our gold mining and development activities, we actively explore for gold in West Africa and South America, investing approximately \$15.8 million on such activities during 2008 and plan to spend approximately \$10 million during 2009. We are conducting regional reconnaissance projects in Ghana, Cote d'Ivoire and Sierra Leone and have drilled more advanced targets in Ghana, Niger and Burkina Faso. We are also evaluating gold properties in Brazil and in French Guiana and are participating in a gold exploration joint venture in Suriname.

## **TRENDS AND EVENTS IN THE NINE MONTHS ENDED SEPTEMBER 30, 2009**

### ***Gold Prices***

Gold prices have generally trended upward during the last eight years, from a low of \$260 per ounce in 2001 to a high of over \$1,100 per ounce in November 2009. Since March 2008, gold price volatility has increased with prices fluctuating between \$700 and \$1,100 per ounce. The realized gold price for our shipments averaged \$967 per ounce during the three months ended September 30, 2009 compared with \$866 per ounce during the same period of 2008.

### ***Hwini-Butre Development***

Development work, which started at the Hwini-Butre mine in the fourth quarter of 2008, was mostly completed by April 2009, and this new operation has continuously sent ore to the Wassa plant since start-up in May 2009.

### ***Benso Royalty Purchase***

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During the second quarter of 2009, we purchased, from an unrelated party, a 1.5% net smelter royalty payable on gold production from our Benso mine for \$3.6 million. The royalty agreement provided us with the option to buy the royalty at any time prior to 18 months after gold production was initiated, regardless of the ownership at that date, for a specified price of Cdn\$4.0 million.

***Higher Gold Output and Lower Cost Per Ounce at Wassa and Bogoso***

The Benso and Hwini-Butre mines, which commenced mining operations late in 2008 and April 2008 respectively, provided a majority of the ore processed at Wassa in the third quarter. The higher grade ores from Benso and Hwini-Butre have resulted in a marked increase in Wassa's gold sales and revenues compared with the first nine months of 2008. Wassa's 2009 sales totaled 164,041 ounces in the first nine months of 2009, up from 79,475 ounces in the first nine months of 2008. The improved grade and resulting increase in ounces along with lower power costs, reduced Wassa's cash operating costs per ounce to \$470 in the third quarter of 2009, down from \$793 in the third quarter of 2008.

Bogoso's gold output increased to 139,375 ounces for the first nine months of 2009, up from 130,307 in the same period of 2008 on higher tonnes processed and better gold recoveries. In addition to the improved gold sales, Bogoso's nine month average cash operating costs fell to \$710 per ounce, down from \$848 per ounce in the first nine months of 2009 and third quarter cash operating cost were down \$199 per ounce from prior year's third quarter level. See the Bogoso/Prestea Operations discussions below for additional details.

***International Financial Reporting Standards***

Golden Star is a Canadian registered company headquartered in the US and its common shares trade on both US and Canadian stock exchanges and as such is a reporting filer with securities regulators in both the US and in Canada. As noted in our recent Forms 10-Q and 10-K, in response to Canada's mandate that all Canadian companies begin reporting in IFRS on or before January 1, 2011, Golden Star has been preparing to adopt IFRS as its reporting GAAP with early adoption at January 1, 2010. In addition to the Canadian IFRS mandate, Ghanaian regulators announced in 2008 that Ghanaian companies were required to report in IFRS beginning with 2009 year-end filings.

Golden Star has, since its inception, reported in Canada using Canadian GAAP and at the same time has reported in the US using Canadian GAAP financial statements pursuant to a long-standing US accommodation which allows Canadian companies to file with US regulators using Canadian GAAP. However, upon Golden Star's conversion to IFRS, there is no assurance that future IFRS filings will be acceptable in the US. Therefore Golden Star, as a Canadian incorporated domestic (US) filer, may be required to adopt US GAAP once Canada adopts IFRS in 2011. Due to the current uncertainty of this issue, we plan to continue with IFRS adoption at our Ghanaian subsidiaries to meet the Ghanaian mandate, but IFRS adoption by our non-Ghanaian subsidiaries and for consolidated financial reporting will be put on hold until more concrete guidance is available.

***Revolving Credit Facility***

On May 1, 2009, we finalized an agreement for a revolving credit facility (the Facility) with Standard Chartered Bank. The Facility provides for a fully committed revolving credit line of \$30 million. As of September 30, there was \$5.0 million drawn on this new facility.

The Facility carries a term of three years from signing and bears interest at the higher of LIBOR or the applicable lenders' cost of funds rate (which is capped at 1.25% per annum above LIBOR), plus a margin of 5% per annum. The Facility is secured by a pledge of shares in our significant subsidiaries and also provides for negative pledges on all other presently unsecured assets. Proceeds of the Facility will be used for working capital and general corporate purposes. The Facility is described in more detail in our Form 8-K filed May 5, 2009.

***New Ghanaian National Stabilization Levy***

At the end of July 2009, the Ghanaian government introduced a temporary levy on certain Ghanaian industries, including mining, brewing, banking, communications and insurance. The new law establishing the levy was made public in August 2009. The bill indicates that companies subject to the levy will pay an amount equal to 5% of profits before tax as disclosed on the statements of operations prepared in accordance with Ghanaian GAAP.

**CONSOLIDATED RESULTS OF OPERATIONS**

|  | Three months ended |                    | Nine months ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| <b>SUMMARY OF FINANCIAL RESULTS</b>                          |                    |                    |                    |                    |
| Gold sales (oz)  | 107,433            | 74,042             | 303,416            | 209,782            |
| Average realized price (\$/oz)                               | 967                | 866                | 934                | 895                |
| Revenues (\$ in thousands)                                   | 103,804            | 64,099             | 283,317            | 187,713            |
| Cash flow provided by/(used in) operations (\$ in thousands) | 26,299             | (2,064)            | 66,673             | 2,589              |
| Net loss (\$ in thousands)                                   | (2,342)            | (22,430)           | (3,108)            | (33,279)           |
| Comprehensive loss (in \$ thousands)                         | (2,268)            | (27,985)           | (2,993)            | (36,229)           |
| Net loss per share basic (\$)                                | (0.010)            | (0.095)            | (0.013)            | (0.141)            |

***Three months ended September 30, 2009 compared to three months ended September 30, 2008***

Results for the three months ended September 30, 2009 included a net loss of \$2.3 million or \$0.010 per share, compared with a net loss of \$22.4 million or \$0.095 per share in the same period of 2008. Higher gold output and higher gold prices were the major factors contributing to the improvement in earnings over the third quarter of 2008. Consolidated mine operating margin totaled \$7.6 million in the quarter, an improvement from a \$16.9 million operating margin loss a year earlier as a result of improved gold output and higher gold prices.

Gold revenues were up 62% as compared to the third quarter of 2008, and the 107,433 ounces sold in the third quarter of 2009 were up 45% from 74,042 ounces sold a year earlier. Most of the increase in gold sales came from the Wassa mine. Higher gold prices also contributed to the higher revenues.

While cost of sales increased from \$81.0 million in the third quarter of 2008 to \$96.2 million in the same period of 2009, cash operating costs were down 2% to \$62.9 million in the third quarter of 2009. Higher depreciation and amortization, based on higher gold output was the major factor contributing to the increase in cost of sales as compared to the third quarter of 2008. Higher mining costs also contributed to the increase in cost of sales, a result of increased amounts of higher cost HBB ores versus the third quarter of the prior year. The major factor contributing to the decrease in cash operating costs was a reduction in the amount of gold drawn from in-process inventories versus the third quarter of 2008.

General and administrative costs totaled \$3.3 million for the three months, down from \$3.7 million in the third quarter 2008, reflecting lower tax audit and tax planning costs in 2009.

***Nine months ended September 30, 2009 compared to the nine months ended September 30, 2008***

Results for the nine months ended September 30, 2009 included a net loss of \$3.1 million or \$0.013 per share, compared with a net loss of \$32.6 million or \$0.138 per share in the same period of 2008. As with the quarter, higher revenue from increased gold sales and higher gold prices were the major factor responsible for the improved financial results as compared to the first nine months of 2008. Increased gold sales also contributed to better operating margins, which improved to \$14.8 million for the first nine months of 2009, up from a \$13.6 million operating margin loss in the same period of 2008.

For the nine months ended September 30, 2009, gold revenues were up 51% as compared to the same period of 2008. Higher gold sales and higher gold prices were responsible for the revenue increase. Gold shipments for the first nine months of 2009 increased 45% to 303,416 ounces, up from 209,782 ounces a year earlier. The average realized gold price was \$934 per ounce during the nine months ended September 30, 2009, up from \$895 per ounce in the same period of 2008. Start-up of the Benso mine in late 2008 and the Hwini-Butre mine in May 2009, which haul their ore to Wassa for processing, were the major factors in the increased gold sales in 2009. Improved gold production at Bogoso contributed 9,068 ounces to the increase over the first nine months of the prior year.

Cash operating costs totaled \$173.5 million for the nine months ended September 30, 2009, up from \$157.3 million in the same period of 2008. Of the \$16.2 million cost increase, \$7.4 million was related to changes in in-process and stockpile inventories. Specifically, \$5.6 million of consolidated operating costs were temporarily added to inventory in the first nine months of 2008 which reduced cash operating costs in that period, while \$1.7 million of operating costs came out of inventory in the first nine months of 2009 which increased cash operating costs.

Cash operating costs in the first nine months of 2009 were also affected by higher mining and ore haulage costs at our new Benso and Hwini-Butre mines which were not in service in the first nine months of 2008. Most of the \$45.2 million increase in depreciation expense, as compared the first nine months of 2008, is related to amortization of the HBB property purchase costs in the current year and also to our use of a units-of-production amortization method, yielding higher depreciation and amortization charges when gold output increases.

General and administrative costs were down \$1.5 million from \$11.9 million in the first nine months of 2008. General and administrative costs were unusually high in the first nine months of 2008 due to tax planning, tax audit costs and charges for severance costs. Interest expense totaled \$11.5 million in the nine months ended September 30, 2009, up slightly from \$11.0 million in the same period of 2008. We recognized a \$3.7 million foreign exchange gain in the first nine months of 2009, versus \$1.1 million gain in the same period of 2008. The majority of the improvement in exchange gain was related to the impact of the decline in the value of the Ghanaian Cedi versus the US dollar during the first nine months of 2009, which reduced the amount of US dollars needed to pay invoices denominated in Ghanaian Cedis.

## BOGOSO/PRESTEA OPERATIONS

|   | Three months ended |               | Nine months ended |               |
|---|--------------------|---------------|-------------------|---------------|
|   | September 30,      | September 30, | September 30,     | September 30, |
|   | 2009               | 2008          | 2009              | 2008          |
| <b>BOGOSO/PRESTEA OPERATING RESULTS</b> |                    |               |                   |               |
| Ore mined refractory (t)                | 750,826            | 668,372       | 2,131,319         | 2,045,717     |
| Ore mined non-refractory                |                    | 50,834        |                   | 136,336       |
| Total ore mined (t)                     | 750,826            | 719,206       | 2,131,319         | 2,182,053     |
| Waste mined (t)                         | 3,924,690          | 4,891,254     | 11,197,240        | 15,396,888    |
| Refractory ore processed (t)            | 797,347            | 731,261       | 2,138,790         | 2,033,846     |
| Refractory ore grade (g/t)              | 2.98               | 2.73          | 2.79              | 2.83          |
| Gold recovery refractory ore (%)        | 69.4               | 67.5          | 70.9              | 64.9          |
| Non-refractory ore processed (t)        |                    | 126,655       |                   | 359,669       |
| Non-refractory ore grade (g/t)          |                    | 2.38          |                   | 2.38          |
| Gold recovery non-refractory ore (%)    |                    | 50.3          |                   | 60.0          |
| Gold sales (oz)                         | 53,069             | 51,959        | 139,375           | 130,307       |
| <b>Total cash cost (\$/oz)</b>          | <b>733</b>         | <b>929</b>    | <b>738</b>        | <b>875</b>    |
| Royalties (\$/oz)                       | 29                 | 26            | 28                | 27            |
| <b>Cash operating cost (\$/oz)</b>      | <b>704</b>         | <b>903</b>    | <b>710</b>        | <b>848</b>    |

### *Three months ended September 30, 2009 compared to three months ended September 30, 2008*

Bogoso/Prestea third quarter 2009 revenues of \$51.2 million were up \$6.2 million from \$45.0 million in the third quarter of 2008, and gold sales of 53,069 ounces were up 3% from the 51,959 ounces sold in the third quarter of 2008 due to improved plant throughput and higher grades. Higher sulfide plant throughput, as compared to the third quarter of 2008, reflects the improvements in plant availability achieved during the past year.

Bogoso/Prestea generated a \$1.2 million operating margin loss in the third quarter of 2009 as compared to a \$12.7 million operating margin loss in the third quarter of 2008. The margin improvement was based on a \$5.5 million reduction in cost of sales during the quarter as compared to a year earlier. Lower electric power and fuel costs contributed to the lower costs in the third quarter of 2009. In June 2009, following several months of negotiation, Bogoso/Prestea's electric power supplier adjusted its power tariff to approximately \$0.08 per kWh retroactive to January 1, 2009, down from approximately \$0.14 per kWh immediately prior to the change and down from \$0.10 per kWh in the first nine months of 2008. The \$0.08 per kWh tariff is an interim rate which will be in effect until a final tariff is formulated by the VRA. Higher depreciation and amortization costs were related to the increase in gold output as compared to the third quarter of 2008 and to a lower reserve basis in 2009.

### *Nine months ended September 30, 2009 compared to nine months ended September 30, 2008*

Bogoso/Prestea revenues increased in the first nine months of 2009 to \$130.3 million, up \$13.7 million from \$116.6 million in the same period of 2008, and gold sales of 139,375 ounces were up 7% or 9,068 ounces from 130,307 in the first nine months of 2008. The increase in gold output was the result of a 5% increase in sulfide tonnes processed and an increase in gold recovery from 64.9% to 70.9% as compared to the sulfide operations in the first nine months of 2008. Higher sulfide plant throughput, as compared to the first nine months of 2008, reflects the

improvements in plant availability achieved during the past year.

Bogoso/Prestea generated \$6.9 million of operating margin loss in the first nine months of 2009, as compared to a \$21.0 million operating margin loss in the same period of 2008. Most of the margin improvement was related to higher revenues as explained above. While cost of sales for the first nine months of 2009 was essentially unchanged from the first nine months of 2008, cash operating costs were \$11.7 million lower in 2009. Factors contributing to lower cash operating costs in the first nine months of 2009 included the fact that Bogoso operated the oxide plant for much of the first nine months of 2008 as well as the sulfide plant but operated only the sulfide plant in the first nine months of 2009. In addition the costs of electric power and fuel were lower during 2009.

Higher depreciation and amortization costs were related to the increase in sulfide ounces produced as compared to the first nine months of 2008 and to a lower reserve base in 2009.

While the Bogoso oxide plant processed minor amounts of sulfide ore in the third quarter of 2009, it essentially remained on care and maintenance during most of the first nine months of 2009 awaiting oxide ores from Prestea South and Pampe. Subject to receipt of environmental permits, we expect to begin mining Prestea South oxide ores in 2010 which will be sent to the Bogoso oxide plant for processing. The Prestea Underground mine remained on care and maintenance during the third quarter of 2009. We continue to dewater underground areas, and evaluate various underground mining scenarios.

## WASSA OPERATIONS

|  | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2009                                | 2008       | 2009                               | 2008       |
| <b>WASSA/HBB OPERATING RESULTS</b>         |                                     |            |                                    |            |
| Ore mined (t)                              | 559,519                             | 521,346    | 1,745,902                          | 2,228,231  |
| Waste mined (t)                            | 4,249,286                           | 1,273,967  | 12,214,669                         | 3,839,739  |
| Ore and heap leach materials processed (t) | 612,337                             | 721,947    | 1,995,532                          | 2,504,959  |
| Grade processed (g/t)                      | 3.12                                | 1.26       | 2.75                               | 1.18       |
| Recovery (%)                               | 95.5                                | 92.0       | 95.4                               | 92.8       |
| Gold sales (oz)                            | 54,364                              | 22,083     | 164,041                            | 79,475     |
| <b>Total cash cost (\$/oz)</b>             | 499                                 | 819        | 487                                | 615        |
| Royalties (\$/oz)                          | 29                                  | 26         | 32                                 | 27         |
| <b>Cash operating cost (\$/oz)</b>         | <b>470</b>                          | <b>793</b> | <b>455</b>                         | <b>588</b> |

*Three months ended September 30, 2009 compared to three months ended September 30, 2008*

Wassa's third quarter 2009 gold revenues totaled \$52.6 million, up 175% from \$19.1 million in the same quarter of 2008. A 146% increase in gold output and a \$101 per ounce average increase in gold prices were responsible for the improved revenues. While plant throughput was lower than in the third quarter of 2008, higher grades of the HBB ore, which was delivered to Wassa throughout the third quarter of 2009, more than offset the lower processing rate, resulting in a net increase in ounces sold.

Wassa generated an \$8.8 million operating margin in the third quarter of 2009 as compared to a \$4.2 million operating margin loss in the third quarter of 2008. Higher gold sales and improved gold prices were the major factors contributing to the improved operating margin. Cash operating costs increased to \$25.5 million in the third quarter of 2009, up from \$17.5 million in the same period in 2008. Most of the increase was related to the cost of operations at Wassa's new HBB mines. The HBB mines have higher waste stripping ratios than the Wassa pits, which contributes to higher mining costs, and the extra haulage distances from the HBB deposits also contributed to higher overall mining operations costs as compared to the same period of 2008 when these two mines were not yet operating.

An \$11.7 million increase in depreciation and amortization charges was mostly related to HBB purchase and development costs which we began amortizing at Benso in mid-2008 and at Hwini-Butre in the second quarter of 2009 when mining was initiated at these new mines.

Wassa's plant feed grade averaged 3.12 grams per tonne in the third quarter of 2009 as compared to 1.26 grams per tonne in the same period of 2008. An increase in the amounts of HBB ores in the third quarter of 2009 as compared to the same period of 2008 was responsible for the overall grade improvement. Total tonnes processed in the third quarter of 2009 dropped to 612,337 tonnes, down from 721,947 tonnes in the third quarter of 2008, reflecting harder ore from Benso. In addition, Wassa cut back on the amount of low-grade heap leach material processed in the quarter to maximize ore residence time in the plant to achieve higher recovery from the higher grade HBB ores.





While mining operations costs were higher in the third quarter of 2009 versus the third quarter of 2008, cash operating costs per ounce fell to \$470, down from \$793 per ounce in the third quarter of 2008 due to higher gold output and to lower power and fuel costs.

*Nine months ended September 30, 2009 compared to nine months ended September 30, 2008*

Wassa's gold shipments totaled 164,041 ounces in the nine months ended September 30, 2009, a 106% increase from 79,475 ounces in the same period of 2008. While plant throughput was lower than in the first nine months of 2008, higher grades of the HBB ore delivered to Wassa during the first nine months of 2009 more than offset the lower processing rate, resulting in a net increase in ounces sold. See the Trends and Events section above for additional discussion of the Hwini-Butre mine and its higher grade ore. The higher grade HBB ores were also responsible for the improved gold recoveries as compared to the nine months ended September 30, 2008.

During the nine months of 2009, Wassa's operations generated a \$21.7 million operating margin as compared to a \$7.4 million operating margin in the same period of 2008. Revenues were significantly higher due to the increase in gold sales and higher gold prices, but cost of sales increased to \$131.3 million, up from \$63.7 million in the first nine months of 2008. Higher depreciation and higher mining operations costs were the major factors responsible for the increase in cost of sales. A \$36.1 million increase in depreciation and amortization charges was mostly related to the impact of the HBB purchase and development costs which we began amortizing in mid-2008 at Benso and in the second quarter of 2009 for Hwini-Butre when mining was initiated at these two new mines. In addition, by using the units-of-production method of amortization, increases in gold output result in increased depreciation expense.

Higher mining operations costs in the first nine months of 2009 were also related to mining at the HBB mines. Cash operating cost increased to \$74.6 million in the first nine months of 2009, up from \$46.7 million in the same period of 2008 when the HBB mines were not yet in service. While start-up of the HBB mines resulted in an offsetting reduction in the cost of mining activities at Wassa, the longer haulage distances, higher stripping ratios and smaller pits at Benso and Hwini-Butre resulted in higher overall mining costs as compared to the first nine months of 2008 when almost of the ore was coming from Wassa pits.

Higher grades of the HBB ores combined to double the head grade at Wassa as compared to the first nine months of 2008. Head grades averaged 2.75 grams per tonne in the nine months ended September 30, 2009, as compared to 1.18 grams per tonne in the same period of 2008. Total tonnes processed in the first nine months of 2009 dropped to 2.0 million tonnes, down from 2.5 million tonnes in the same period of 2008, reflecting harder ore from Benso and also a reduction in the amount of heap leach material processed in the current period. In addition, Wassa cut back on the amount of low-grade heap leach material processed in the quarter to maximize ore residence time in the plant to achieve higher recovery from the higher grade HBB ores.

While cash operating costs were higher in the first nine months of 2009 versus the 2008 as noted above, cash operating costs per ounce fell to \$455, down from \$588 per ounce in the nine months ended September 30, 2008 due to the higher gold output.

## **DEVELOPMENT PROJECTS**

### *Prestea South Properties*

Prestea South development continues to be on hold pending receipt of environmental permits. Prestea South, oxide ore will be transported to Bogoso when mining begins and processed through the Bogoso oxide plant and the Prestea South sulfide ore will be processed through the Bogoso sulfide plant.

## **EXPLORATION**

Our exploration budget has been increased from \$7.5 million to approximately \$10 million for 2009. The main focus through the third quarter has been primarily on resource definition drilling in and around mining leases in Ghana and on evaluation of portions of the HBB properties outside of current mining areas. In the fourth quarter we will continue exploration on the HBB properties, Bogoso/Prestea, and Brazil.

### *Ghana*

During the first nine months of 2009, exploration activities focused on development drilling at Wassa. Drill results confirmed the presence of higher grade ore pods at Wassa's main pits. Resource and reserve estimates are now being updated with drilling results from the first nine months of 2009. Upon completion of the Wassa main pits drilling program in the third quarter, drilling moved on to Benso and Hwini-Butre and will include additional drilling at Chichiwelli located between Wassa and Benso.

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We also plan to commence drilling at some of the Bogoso area geophysical targets delineated in the 2008 VTEM geophysical survey. This drilling will focus on the deeper targets beneath the active mining sulfide pits, Chujah Main and Buesichem on our Bogoso and Prestea Mining leases.

### ***Ivory Coast***

We plan to expand soil geochemistry surveys at the Amelika and Abengoru concessions in eastern Ivory Coast during the fourth quarter after the seasonal rains have subsided.

### ***Sierra Leone***

Golden Star has now earned a 51% ownership position in the Sonfon license in northern Sierra Leone by spending \$2 million on exploration. The Sonfon property is a joint venture between Golden Star and African Aura Mining Inc. Preparations for ground geophysics are underway, and we anticipate commencement of this program during the fourth quarter.

### ***Burkina Faso***

Late in the fourth quarter we expect to conduct preliminary assessment of two of our recently granted concessions in south central Burkina Faso. The work program will include preliminary prospecting and wide spaced soil geochemical sampling.

### ***Suriname***

In the second quarter of 2009 Newmont Mining, our joint venture partner, met its \$6.0 million spending requirement which provided Newmont Mining with a 51% interest in Saramacca. Per terms of the joint venture, future Saramacca exploration costs will be shared by both partners with Newmont contributing 51% and Golden Star contributing 49%. Newmont assumed responsibility for project management in the second quarter of 2009.

### ***French Guiana***

The Paul Isnard project in French Guiana continues on a care and maintenance basis awaiting completion of the French government's review of mining in French Guiana. Based on recent values of gold properties in French Guiana, Paul Isnard carrying costs were reduced to approximately \$2 million in the third quarter.

### ***Brazil***

Property evaluation and project generation continued in Brazil during the third quarter.

## **LIQUIDITY AND CAPITAL RESOURCES**

At September 30, 2009, our cash and cash equivalents totaled \$57.6 million, compared with \$33.6 million at the end of 2008. Operating activities provided \$66.7 million of cash during the nine months of 2009, compared to \$2.6 million in the same period of 2008.

Debt repayments totaled \$10.1 million in the first nine months of 2009, of which \$0.6 million was for the final installment payment of our \$15.0 million short term Ghanaian bank loan and \$9.5 million was paid on equipment financing loans. The equipment financing facility provider implemented a new internal policy in 2009 which resulted in an adjustment to our facility, setting the maximum balance at \$35 million, down 7% from the prior \$40 million maximum. This policy change was made in response to credit market conditions in general and was not related to our specific loan performance history. At September 30, 2009 we held an outstanding balance of \$22.1 million on the equipment financing facility with available credit of \$12.9 million.

On May 1, 2009, we finalized an agreement for a revolving credit facility (the Facility) with Standard Chartered Bank. The Facility provides for a fully committed revolving credit line of \$30 million.

The Facility carries a term of three years from signing and bears interest at the higher of LIBOR or the applicable lenders' cost of funds rate (capped at 1.25% per annum above LIBOR), plus a margin of 5% per annum. The Facility is secured by a pledge of shares in our significant subsidiaries and also provides for negative pledges on all other presently unsecured assets. Proceeds of the Facility will be used for working capital and general corporate purposes. As of September 30, 2009 we had drawn down \$5.0 million on the Facility.

Cash equivalents held during the first nine months of 2009 were held as cash or were invested in a fund that held only US treasury notes and bonds.

## **LIQUIDITY OUTLOOK**

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During 2008 and early 2009, world financial markets suffered a series of significant difficulties including financial institution failures, a decrease in liquidity, a decrease in world-wide economic activity and unprecedented volatility in the cost of operating consumables and commodity prices including gold. While gold prices declined in the fourth quarter of 2008, they have since risen to levels above those of the first nine months of 2008 averaging \$967 per ounces during the third quarter of 2009. In response to the lower gold prices at the end of 2008, we implemented a cost reduction program throughout the Company and also deferred or cancelled certain capital projects. In recent quarters, the costs of certain of our operating consumables have trended lower, which has resulted in lower operating costs. The combination of higher gold prices, increased gold output from our mines and lower operating costs has resulted in improved operating cash flows from our mines. This is reflected in our cash balances which have risen from \$28.1 million at March 31, 2009 to \$57.6 million at the end of September 2009.

Given the trends listed above, we expect that operational cash flows during the remainder of 2009, along with the \$57.6 million of cash and cash equivalents on hand at September 30, 2009, the new revolving credit facility and the equipment financing facility currently in place, will be sufficient to cover capital and operating needs during the next 12 months.

During the remainder of 2009, we expect that the higher grade ores hauled to Wassa from the HBB mines will continue to have a positive impact on Wassa's operating cash flow which is expected to exceed prior year levels. If the Bogoso sulfide plant continues to respond to our efforts to increase gold output during the remainder of 2009, Bogoso's contribution to operating cash flows should also increase.

Our 2009 capital budget is expected to total approximately \$45 million. The 2009 budget includes approximately \$23.3 million for Hwini-Butre development, \$3.4 million for additional pit development at Bogoso, \$10.6 million for deferred exploration and mine site drilling, and \$13.4 million for sustaining capital at Bogoso and Wassa.

During 2009, including payments made to date, we expect to pay \$13.6 million of principal and interest on our equipment financing facility. We made the final \$0.6 million installment payment on our short-term bank loan in January 2009. Interest payments on the convertible debentures are expected to total \$5.0 million in 2009.

#### **LOOKING AHEAD**

Our objectives for the remainder of 2009 include:

Continued optimization of the Bogoso sulfide processing plant to improve recoveries, availability and reduce costs;

Continuation of permitting efforts at the Prestea South ore bodies; and

Continued exploration drilling at Bogoso/Prestea and at the HBB properties to further evaluate their resource potential.

We estimate 2009 Bogoso/Prestea gold production will total 190,000 ounces at an average cash operating cost of \$685 per ounce. We expect Wassa to produce approximately 215,000 ounces during 2009 at an average cash operating cost of \$460 per ounce, for total production of approximately 405,000 ounces at an average cash operating cost of approximately \$565 per ounce.

As more fully disclosed in the Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2008, numerous factors could cause our estimates and expectations to be wrong or could lead to changes in our plans. Under any of these circumstances, the above estimates could change materially.

#### **ENVIRONMENTAL LAWS AND REGULATIONS**

All phases of our operations are subject to environmental laws and regulations in the various jurisdictions where we operate. These regulations may define, among other things, air and water discharge quality standards, waste management requirements, and mine closure and land rehabilitation obligations. In general, environmental legislation is evolving to require stricter operating standards, more detailed social and environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors, and employees for social responsibility, and health and safety. We work to maintain high quality operating systems aimed at achieving best practice and established standards. However, changes in environmental regulations could affect the way we operate, resulting in higher environmental and social operating costs that may affect the viability of our operations.

We use hazardous chemicals in our gold recovery activities, so generating environmental contaminants that may adversely affect air and water quality. To mitigate these effects, we have established objectives to achieve regulatory requirements in all of our exploration, development, operation, closure, and post-closure activities, so that our employees, the local environment and our stakeholder communities are protected and that the post-closure land use contributes to the sustainability of the local economy. In order to meet our objectives, we have:

Educated our leaders and managers so that they are committed to creating a culture that makes social and environmental matters an integral part of the short- and long-term operations and performance management systems;

Worked with our employees so that they understand and accept environmental and social policies and procedures as a fundamental part of our business;

Signed and implemented the International Cyanide Management Code ( the Code );

Signed and publicly stated our support for the UN Global Compact and completed our communication on progress (COP);

Established, and continue to improve operating standards and procedures that aim to meet or exceed requirements in relevant laws and regulations, the commitments made in our environmental impact statements, environmental and socioeconomic management plans, rehabilitation and closure plans; and any international protocols to which we are a signatory;

Incorporated environmental performance requirements into all relevant contracts;

Provided training to employees and contractors in environmental matters;

Regularly prepared, reviewed, updated and implemented site-specific environmental management and rehabilitation and closure plans;

Worked to progressively rehabilitate disturbed areas in conformance with the site-specific environmental management and rehabilitation and closure plans;

Consulted local communities and regulators to provide us with input to our social and environmental management policies and procedures;

Regularly reviewed our environmental performance; and

Publicly reported our social, health, safety, and environmental performance.

Governmental approvals and permits are currently required and will likely continue to be required in the future in connection with our operations and development activities. To the extent that such approvals are required and not obtained, we could be limited or prohibited from continuing our mining and processing operations or from proceeding with planned exploration or the development of mineral properties.

Our mining, processing, development and mineral exploration activities are subject to various laws governing prospecting, development, production, taxes, labor standards, occupational health and safety, land claims of local people and other matters. New rules and regulations may be enacted or existing rules and regulations may be modified or applied in a manner that could have an adverse effect on our financial position and results of operations.

#### **RELATED PARTY TRANSACTIONS**

During 2009, we obtained legal services from a legal firm to which our Chairman is of counsel. The total value of all services purchased from this law firm during the first nine months of 2009 was \$0.4 million. Our Chairman did not personally perform any legal services for us during the period nor did he benefit directly or indirectly from payments for the services performed by the firm.

#### **RECENT ACCOUNTING PRONOUNCEMENTS**

The Canadian Accounting Standards Board ( AcSB ) has issued Canadian Institute of Chartered Accountants: Handbook ( CICA ) Section 3064, Goodwill and Intangible Assets which replaces CICA 3062 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. CICA 3064 expands on the criteria for recognition of intangible assets that can be recognized and applies to internally-generated intangible assets as well as to purchased intangible assets. Section 3064 dictates that certain expenditures not meeting the recognition criteria of an intangible asset are expensed as incurred. Emerging issues committee decision ( EIC )27 (Revenues and Expenditures in the pre-operation period) is no longer applicable for entities that have adopted CICA 3064. Section 3064 became effective January 1, 2009 and required that we retrospectively adjust our financial statements to reflect the impact of the changes to the accounting for intangible assets.

In response to this new standard, the accompanying September 30, 2009 financial statements and comparative period financials include the impact of the reclassification of certain 2005 plant start-up period costs to expense, such costs having been initially capitalized as Mining Property assets. The total of these costs was \$4.7 million with a net book value of \$1.9 million at December 31, 2008. Depreciation expense was decreased by \$0.7 million and \$0.4 million in the nine months ended September 30, 2008 and the nine months ended September 30, 2009, respectively.

In January 2009, the CICA issued Handbook Section 1582, Business Combinations ( Section 1582 ), Section 1582 requires that all assets and liabilities of an acquired business will be recorded at fair value at acquisition. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition related costs will be expensed as incurred and that



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restructuring charges will be expensed in the periods after the acquisition date. Section 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011. The Company is currently assessing the impact of the new standard on its financial statements.

In January 2009, the CICA issued Handbook Section 1601, Consolidations ( Section 1601 ), and section 1602, Non-controlling Interests ( Section 1602 ). Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of the new standard on its financial statements.

In January 2009 the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC provided guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The standard is effective for our fiscal year beginning January 1, 2009. The application of this EIC did not have a significant effect on our financial statements.

In March 2009, the CICA issued EIC-174, Mining Exploration Costs. The EIC provides guidance on accounting for capitalization and impairment of exploration costs. This standard is effective for our fiscal year beginning January 1, 2009. The application of this EIC did not have any effect on our financial statements.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

We have no off balance sheet arrangements.

#### **OUTSTANDING SHARE DATA**

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes information available to November 6, 2009. As of November 6, 2009 we had outstanding 236,939,761 common shares, options to acquire 7,692,715 common shares, and convertible notes which are currently convertible into 25,000,000 common shares.

#### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our exposure to market risk includes, but is not limited to, the following risks: changes in interest rates on our investment portfolio and debt, changes in foreign currency exchange rates, commodity price fluctuations and equity price risk.

##### **Interest Rate Risk**

Our excess cash is typically invested in high quality short-term debt instruments. The interest rates received on such investments fluctuate with changes in economic conditions. As a result, our investment income may fall short of expectations during periods of lower interest rates. We estimate that, given the cash balances expected over the next 12 months, a 1% change in interest rates would not materially impact our annual income. We do not utilize interest rate sensitive derivatives to mitigate interest rate risk. We have not entered into any agreements to hedge against unfavorable changes in interest rates, but may in the future actively manage our exposure to interest rate risk. Interest rates on the Revolving Credit Facility are periodically reset to existing market rates. Given the balances we expect to have outstanding on this facility during the next 12 months, a 1% change in interest rates would not have a material impact on our earnings. Interest rates on our other debt instruments are fixed and are not changed with changes in market interest rates.

##### **Foreign Currency Exchange Rate Risk**

While our major operating units transact most of their business in US dollars, certain purchases of labor, operating supplies and capital assets are denominated in Euros, British pounds, Australian dollars, South African rand and Ghanaian cedi. As a result, currency exchange fluctuations have in the past and may continue in the future to impact the costs of goods and services purchased in currencies other than the US dollar. The appreciation of non-US dollar currencies against the US dollar increases the costs of goods and services purchased in non-US dollar terms, which can adversely impact our net income and cash flows. Conversely, a depreciation of non-US dollar currencies against the US dollar usually decreases the costs of goods and services purchased in US dollar terms. During the first nine months of 2009, exchange rate gains, mostly related to the devaluation of purchases denominated in the Ghanaian Cedi, provided a \$3.4 million benefit to us.

In general, the value of cash and cash equivalent investments denominated in foreign currencies fluctuates with changes in currency exchange rates. Appreciation of non-US dollar currencies results in a foreign currency gain on such investments and a decrease in non-US dollar currencies results in a loss. We held minimal balances in foreign currency accounts during the first nine months of 2009 and thus there were no material gains or losses from this source.

During the first nine months of 2009, we held no foreign currency purchase agreements and do not anticipate using foreign currency purchase agreements on a regular basis.

##### **Commodity Price Risk**

Gold is our primary product and, as a result, changes in the price of gold could significantly affect the results of operations and cash flows. According to current estimates, a \$10 per ounce change in our average realized price of gold for 2009 would result in approximately \$4.0 million change in pre-tax earnings and cash flows. We currently use and in the past we have utilized various types of derivative instruments designed to lock-in or to insure minimum prices for portions of our expected gold sales. See note 12 in the accompanying financial statements for a description of the instruments currently held.

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Fuel for mining equipment and electricity used to operate our plants are two of our largest operating cost items. As such, our operating costs are exposed to fluctuations in the price of crude oil in world markets. Prolonged increases in the price of crude oil will typically

result in an increase in the cost of operating our equipment, an increase in the cost to import goods and services, and an increase in our power cost. Conversely a decrease in the price of crude oil will result in a decrease in the aforementioned costs. We have not utilized derivative instruments to hedge our energy costs.

#### **Equity Price Risk**

We have in the past and may in the future seek to acquire additional funding by sale of common shares. Movements in the price of our common shares have been volatile in the past and may be volatile in the future. As a result, there is a risk that we may not be able to sell new common shares at an acceptable price should the need for new equity funding arise.

#### **ITEM 4. CONTROLS AND PROCEDURES**

During the fiscal period covered by this report, the Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the required time periods and are designed to ensure that information required to be disclosed in its reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or that is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**B.D. Goldfields Action** On August 29, 2008 B.D. Goldfields, Ltd., a Ghanaian registered company, and a shareholder of B.D. Goldfields, Ltd. filed suit in the United States District Court of the District of Colorado (the Court) against Golden Star Resources Ltd. and our subsidiary St. Jude Resources Ltd. The plaintiffs challenged the validity of the various concession contracts and settlements related to the Hwini-Butre gold property in Ghana. The Company filed a motion to dismiss with the Court on November 6, 2008. The Court granted the Company's motion to dismiss and issued its Order of Dismissal on May 8, 2009, with judgment entered in favor of us on May 12, 2009. The Order of Dismissal and Judgment (the Judgment) dismissed with prejudice all claims against Golden Star and St. Jude Resources Ltd. for lack of jurisdiction. In addition, the Court awarded us certain attorneys' fees and costs. After entry of the Judgment, the plaintiffs filed a post-judgment motion to alter the Judgment. We opposed the post-judgment motion and on September 28, 2009, the Court denied the motion. Accordingly, the Judgment is final. Meanwhile, on June 12, 2009, the plaintiffs also appealed the Judgment to the United States Court of Appeals for the Tenth Circuit (the Appeals Court). On June 26, 2009, we filed a motion to dismiss the appeal for lack of jurisdiction. On July 10, 2009, the Appeals Court dismissed the appeal. Accordingly, the case now has been closed at the trial and appellate levels except for issues concerning the Company's recovery of attorneys' fees and costs from the plaintiffs.

We are also engaged in other routine litigation incidental to our business, none of which is deemed to be material. No material legal proceedings, involving us or our business are pending, or, to our knowledge, contemplated, by any governmental authority.

**ITEM 1A. RISK FACTORS**

The following risk factor replaces the risk factor entitled "We may incur substantial losses in the future that could make financing our operations and business strategy more difficult." in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Annual Report). The other risk factors for the quarter ended September 30, 2009 are substantially the same as those disclosed and discussed in the 2008 Annual Report.

We have incurred and may continue to incur substantial losses that could make financing our operations and business strategy more difficult and that may affect our ability to service our debts as they become due.

We experienced a net loss of \$120.1 million in 2008 and have experienced net losses in other prior fiscal years. In recent years, the start-up of the Bogoso sulfide plant, lower than expected ore grades or recoveries, higher than expected operating costs, and impairment write-offs of mine property and/or exploration property costs have been the primary factors contributing to such losses. In the future, these factors, as well as declining gold prices, could cause us to continue to be unprofitable in the future. Future operating losses could make financing our operations and our business strategy, including pursuit of the growth opportunities anticipated at the HBB properties, or raising additional capital, difficult or impossible and could materially and adversely affect our operating results and financial condition. In addition, continuing operating losses could affect our ability to meet our debt payment obligations.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

- 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 the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned.

GOLDEN STAR RESOURCES LTD.

Registrant

By: */s/* THOMAS G. MAIR  
**Thomas G. Mair**  
**President and Chief Executive Officer**

Date: November 9, 2009

By: */s/* JOHN A. LABATE  
**John A. Labate**  
**Senior Vice President and Chief Financial Officer**

Date: November 9, 2009