

GOLDEN STAR RESOURCES LTD  
Form 10-Q  
August 09, 2011

# 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 June 30, 2011

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.) |
| 10901 West Toller Drive, Suite 300<br><br>Littleton, Colorado<br>(Address of Principal Executive Office) | 80127-6312<br>(Zip Code)                |
| Registrant's telephone number, including area code (303) 830-9000  |   |

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: <input checked="" type="checkbox"/> | Accelerated filer: <input type="checkbox"/>         |
| Non-accelerated filer: <input type="checkbox"/>              | Smaller reporting company: <input type="checkbox"/> |

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 August 5, 2011: 258,609,486

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## REPORTING CURRENCY, FINANCIAL AND OTHER INFORMATION

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

Financial information is presented in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ). Differences between U.S. GAAP and International Financial Reporting Standards ( IFRS ), as applicable to Golden Star Resources Ltd., are explained in Note 21 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 U.S. 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 2011; production capacity, production rates, and production costs; cash operating costs generally; gold sales; mining operations and gold recovery rates; ore delivery; ore processing; permitting; geological, environmental, community and engineering studies; receipt of environmental management plan approvals by the Ghana Environmental Protection Agency ( EPA ); exploration efforts and activities; ore grades; our anticipated investing and exploration spending during 2011; identification of acquisition and growth opportunities; power costs, the ability to meet total power requirements; retention of earnings from our operations; expected operational cash flow during the remainder of 2011; our objectives for 2011; expected debt payments during 2011; and sources of and adequacy of liquidity to meet capital and other needs in 2011 and beyond.

The following, in addition to the factors described under Risk Factors in Item 1A of our December 31, 2010 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 processed;

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, power, 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 or in the interpretation of regulations by the regulatory authorities affecting our operations, particularly in Ghana, where our principal producing properties are located;

local and community impacts and issues;

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**  
**U.S. GAAP FINANCIAL STATEMENTS**

The following financial statements and footnotes presented immediately below, are prepared in conformity with U.S. GAAP except for Note 21.

**IFRS RECONCILIATIONS**

To facilitate comparison of our U.S. GAAP financial statements to the financial statements of other mining companies which report their financial results under IFRS, we have prepared a reconciliation showing our results on an IFRS basis. This reconciliation is presented below in footnote 21.

## GOLDEN STAR RESOURCES LTD.

## CONSOLIDATED BALANCE SHEETS

(Stated in thousands of U.S. dollars except shares issued and outstanding)

(unaudited)

|  | As of<br>June 30<br>2011 | As of<br>December 31<br>2010 |
|--|--------------------------|------------------------------|
| <b>ASSETS</b>  |                          |                              |
| <b>CURRENT ASSETS</b>  |                          |                              |
| Cash and cash equivalents (Note 4)   | \$ 127,915               | \$ 178,018                   |
| Accounts receivable (Note 4)   | 14,494                   | 11,885                       |
| Inventories (Note 6)   | 65,877                   | 65,204                       |
| Deposits   | 9,814                    | 5,865                        |
| Prepays and other  | 2,735                    | 1,522                        |
| <b>Total Current Assets</b>  | 220,835                  | 262,494                      |
| <b>RESTRICTED CASH</b>   | 2,405                    | 1,205                        |
| <b>PROPERTY, PLANT AND EQUIPMENT (Note 8)</b>  | 234,802                  | 228,367                      |
| <b>INTANGIBLE ASSETS</b>   | 6,319                    | 7,373                        |
| <b>MINING PROPERTIES (Note 9)</b>  | 250,135                  | 250,620                      |
| <b>OTHER ASSETS (Note 7)</b>   | 2,625                    | 3,167                        |
| <b>Total Assets</b>  | \$ 717,121               | \$ 753,226                   |
| <b>LIABILITIES</b>   |                          |                              |
| <b>CURRENT LIABILITIES</b>   |                          |                              |
| Accounts payable (Note 4)  | \$ 22,959                | \$ 34,522                    |
| Accrued liabilities (Note 4)   | 47,769                   | 53,935                       |
| Derivatives (Notes 4 and 5)  | 5,138                    |                              |
| Asset retirement obligations (Note 10)   | 15,459                   | 23,485                       |
| Current tax liability (Note 12)  | 761                      | 1,128                        |
| Current debt (Notes 11)  | 8,313                    | 10,014                       |
| <b>Total Current Liabilities</b>   | 100,399                  | 123,084                      |
| <b>LONG TERM DEBT (Notes 4 and 11)</b>   | 131,421                  | 155,878                      |
| <b>ASSET RETIREMENT OBLIGATIONS (Note 10)</b>  | 24,529                   | 21,467                       |
| <b>DEFERRED TAX LIABILITY (Note 12)</b>  | 22,024                   | 15,678                       |
| <b>Total Liabilities</b>   | \$ 278,373               | \$ 316,107                   |
| <b>COMMITMENTS AND CONTINGENCIES (Note 13)</b>   |                          |                              |
| <b>SHAREHOLDERS EQUITY</b>   |                          |                              |
| <b>SHARE CAPITAL</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: 258,584,486 at June 30, 2011; 258,511,236 at December 31, 2010 (Note 14) |                          |                              |
|  | 693,705                  | 693,487                      |
| <b>CONTRIBUTED SURPLUS</b>   | 18,720                   | 16,560                       |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>  | 1,620                    | 1,959                        |
| <b>DEFICIT</b>   | (273,156)                | (274,036)                    |
| <b>Total Golden Star Equity</b>  | 440,889                  | 437,970                      |

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|  |                   |                   |
|--|-------------------|-------------------|
| NONCONTROLLING INTEREST                          | (2,141)           | (851)             |
| <b>Total Equity</b>                              | 438,748           | 437,119           |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b> | <b>\$ 717,121</b> | <b>\$ 753,226</b> |

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



## GOLDEN STAR RESOURCES LTD.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)

(Stated in thousands of U.S. dollars except shares and per share data)

(unaudited)

|   | For the three months ended<br>June 30 |              | For the six months ended<br>June 30 |              |
|---|---------------------------------------|--------------|-------------------------------------|--------------|
|   | 2011                                  | 2010         | 2011                                | 2010         |
| <b>REVENUE</b>  |                                       |              |                                     |              |
| Gold revenues   | \$ 109,807                            | \$ 120,307   | \$ 226,313                          | \$ 223,571   |
| Cost of sales (Note 15)   | 102,525                               | 103,854      | 210,276                             | 193,493      |
| <b>Mine operating margin</b>  | 7,282                                 | 16,453       | 16,037                              | 30,078       |
| Exploration expense   | 1,569                                 | 1,246        | 2,148                               | 2,549        |
| General and administrative expense  | 7,252                                 | 4,145        | 14,354                              | 9,114        |
| Derivative mark-to-market (gain)/loss (Note 5)                              | (3,677)                               | 10,833       | (17,613)                            | 23,753       |
| Property holding costs  | 1,689                                 | 1,197        | 4,363                               | 2,298        |
| Foreign exchange loss   | 462                                   | 204          | 719                                 | 571          |
| Interest expense  | 2,112                                 | 2,246        | 4,470                               | 4,483        |
| Interest and other income   | (63)                                  | (98)         | (102)                               | (295)        |
| (Gain)/loss on sale of investments  | 2                                     | 71           | 2                                   | (1,653)      |
| Net income/(loss) before income tax   | (2,064)                               | (3,391)      | 7,696                               | (10,742)     |
| Income tax expense  | (3,801)                               | (1,251)      | (8,106)                             | (2,779)      |
| <b>Net loss</b>   | \$ (5,865)                            | \$ (4,642)   | \$ (410)                            | \$ (13,521)  |
| Net income/(loss) attributable to noncontrolling interest                   | (817)                                 | 976          | (1,290)                             | 1,347        |
| <b>Net income/(loss) attributable to Golden Star shareholders</b>           | \$ (5,048)                            | \$ (5,618)   | \$ 880                              | \$ (14,868)  |
| <b>Net income/(loss) per share attributable to Golden Star shareholders</b> |                                       |              |                                     |              |
| Basic (Note 17)   | \$ (0.020)                            | \$ (0.022)   | \$ 0.003                            | \$ (0.058)   |
| Diluted (Note 17)   | \$ (0.020)                            | \$ (0.022)   | \$ 0.003                            | \$ (0.058)   |
| Weighted average shares outstanding (millions)                              | 258.6                                 | 257.9        | 258.6                               | 257.7        |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>                                    |                                       |              |                                     |              |
| <b>Net loss</b>   | \$ (5,865)                            | \$ (4,642)   | \$ (410)                            | \$ (13,521)  |
| Other comprehensive income/(loss) (Note 7)                                  | (424)                                 | (592)        | (339)                               | 340          |
| <b>Comprehensive loss</b>   | \$ (6,289)                            | \$ (5,234)   | \$ (749)                            | \$ (13,181)  |
| Comprehensive income/(loss) attributable to Golden Star shareholders        | \$ (5,472)                            | \$ (6,210)   | \$ 541                              | \$ (14,528)  |
| Comprehensive (income)/loss attributable to noncontrolling interest         | (817)                                 | 976          | (1,290)                             | 1,347        |
| Comprehensive (loss)  | \$ (6,289)                            | \$ (5,234)   | \$ (749)                            | \$ (13,181)  |
| Deficit, beginning of period  | \$ (268,108)                          | \$ (272,056) | \$ (274,036)                        | \$ (262,806) |
| Deficit, end of period  | \$ (273,156)                          | \$ (277,674) | \$ (273,156)                        | \$ (277,674) |

*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 U.S. dollars)

(unaudited)

|   | For the three months ended<br>June 30 |            | For the six months ended<br>June 30 |             |
|---|---------------------------------------|------------|-------------------------------------|-------------|
|   | 2011                                  | 2010       | 2011                                | 2010        |
| <b>OPERATING ACTIVITIES:</b>  |                                       |            |                                     |             |
| Net loss  | \$ (5,865)                            | \$ (4,642) | \$ (410)                            | \$ (13,521) |
| <b>Reconciliation of net loss to net cash provided by operating activities:</b> |                                       |            |                                     |             |
| Depreciation, depletion and amortization  | 15,274                                | 27,376     | 36,492                              | 52,833      |
| Amortization of loan acquisition cost   | 318                                   | (159)      | 672                                 | (195)       |
| Gain/Loss on sale of assets   | 2                                     | 71         | 2                                   | (1,653)     |
| Non cash employee compensation  | 879                                   | 502        | 2,220                               | 1,919       |
| Future income tax expense   | 3,040                                 | 152        | 6,347                               | 1,176       |
| Fair value of derivatives   | 930                                   | 812        | 5,179                               | (319)       |
| Fair value (gains)/losses on convertible debt                                   | (6,107)                               | 8,949      | (24,292)                            | 23,002      |
| Accretion of asset retirement obligations                                       | 2,183                                 | 601        | 3,116                               | 1,201       |
| Reclamation expenditures  | (7,945)                               | (2,049)    | (11,828)                            | (3,600)     |
|   | 2,709                                 | 31,613     | 17,498                              | 60,843      |
| Changes in non-cash working capital:  |                                       |            |                                     |             |
| Accounts receivable   | (1,779)                               | (11,692)   | (2,804)                             | (12,429)    |
| Inventories   | (15)                                  | (291)      | (421)                               | (4,192)     |
| Deposits  | 245                                   | (364)      | (700)                               | (280)       |
| Accounts payable and accrued liabilities  | (2,185)                               | 6,722      | (18,799)                            | 4,603       |
| Other   | (425)                                 | 1,399      | (2,089)                             | 318         |
| Net cash provided by/(used in) operating activities                             | (1,450)                               | 27,387     | (7,315)                             | 48,863      |
| <b>INVESTING ACTIVITIES:</b>  |                                       |            |                                     |             |
| Expenditures on mining properties   | (9,191)                               | (7,217)    | (18,031)                            | (9,181)     |
| Expenditures on property, plant and equipment                                   | (9,951)                               | (5,461)    | (19,863)                            | (17,289)    |
| Change in accounts payable and deposits on mine equipment and material          | (4,077)                               | 2,593      | (3,184)                             | 2,593       |
| Other   |                                       | 1,332      |                                     | 2,220       |
| Net cash used in investing activities   | (23,219)                              | (8,753)    | (41,078)                            | (21,657)    |
| <b>FINANCING ACTIVITIES:</b>  |                                       |            |                                     |             |
| Principal payments on debt  | (2,573)                               | (8,197)    | (5,338)                             | (16,410)    |
| Proceeds from debt agreements and equipment financing                           | 3,470                                 | 4,506      | 3,470                               | 14,506      |
| Other   | 26                                    | 1,437      | 158                                 | 1,842       |
| Net cash provided by/(used in) financing activities                             | 923                                   | (2,254)    | (1,710)                             | (62)        |
| Increase/(decrease) in cash and cash equivalents                                | (23,746)                              | 16,380     | (50,103)                            | 27,144      |
| Cash and cash equivalents, beginning of period                                  | 151,661                               | 164,852    | 178,018                             | 154,088     |
| Cash and cash equivalents end of period   | \$ 127,915                            | \$ 181,232 | \$ 127,915                          | \$ 181,232  |

(See Note 20 for supplemental cash flow information)

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



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**GOLDEN STAR RESOURCES LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. NATURE OF OPERATIONS**

Through our 90% owned subsidiary Golden Star (Bogoso/Pretea) Ltd ( GSBPL ) we own and operate the Bogoso/Pretea gold mining and processing operation ( Bogoso/Pretea ) located near the town of Bogoso, Ghana. Through our 90% owned subsidiary Golden Star (Wassa) Ltd ( GSWL ) we also own and operate the Wassa gold mine ( Wassa ), located approximately 35 kilometers east of Bogoso/Pretea. Wassa mines ore from pits near the Wassa plant and also processes ore mined at our Hwini-Butre and Benso ( HBB ) mines located south of Wassa. 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 in South America we hold and manage exploration properties in Brazil.

**2. BASIS OF PRESENTATION**

Golden Star Resources Ltd ( Golden Star or Company ) is a Canadian federally incorporated, international gold mining and exploration company headquartered in the United States ( U.S. ). Prior to 2011, Golden Star has reported to security regulators in both Canada and the U.S. using Canadian GAAP financial statements with a footnote reconciliation to U.S. GAAP. However, a change in SEC position in late 2009 required Canadian companies such as Golden Star, that do not qualify as a foreign private issuer, to file their financial statements in the U.S. using U.S. GAAP after December 31, 2010. We therefore adopted U.S. GAAP as of January 1, 2011 for all of our subsequent U.S. and Canadian filings. All comparative financial information presented in this Form 10-Q is thus reported in accordance with U.S. GAAP.

Since the U.S. GAAP financial statements contained in this Form 10-Q differ in certain respects from financial statements prepared in accordance with International Financial Reporting Standards ( IFRS ), Note 21 has been added to this Form 10-Q which presents our Consolidated Balance Sheets, Statements of Operations and Statements of Cash Flow as if we had adopted IFRS. This is done to facilitate comparison of our financial results to those of other mining companies that report in IFRS.

These unaudited interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim periods presented.

The results reported in these interim financial statements are not necessarily indicative of the results that may be reported for the entire year. Accordingly, these interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010, including note 27, Generally Accepted Accounting Principles in the United States , filed on Form 10-K.

**3. RECENT ACCOUNTING PRONOUNCEMENTS**

**RECENTLY ADOPTED STANDARDS**

In January 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements*, which amends Subtopic 820-10 of the FASB Accounting Standards Codification to require new disclosures for fair value measurements and provides clarification for existing disclosure requirements. More specifically, this update required (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarified existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. We adopted this new guidance in the first quarter of 2010 and it did not materially expand our consolidated financial statement footnote disclosures.

In April 2010, the FASB issued Accounting Standards Update No. 2010-12 which amends topic 718 Compensation Stock Compensation . The amendment addresses the classification of an employee share-based payment awards with an exercise price denominated in the currency of a market in which the underlying equity security trades, stating that a share-based award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity trades shall not be considered to contain a market, performance, or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies as equity. This new provision is effective for fiscal years, and interim periods



within those years, beginning on or after December 15, 2010. While our stock option plan denominates option strike prices in Canadian dollars, a substantial portion of our common shares trade in Canada and thus this new guidance did not affect our consolidated financial position, cash flows, nor results of operations in 2011.

#### **RECENTLY ISSUED STANDARDS**

***Presentation of Comprehensive Income:*** In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220)-Presentation of Comprehensive Income* (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for us in our first quarter of fiscal 2013 and should be applied retrospectively. We are currently evaluating the impact of our pending adoption of ASU 2011-04 on our consolidated financial statements.

***Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements:*** In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820)-Fair Value Measurement* (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. ASU 2011-04 is effective for us in our fourth quarter of fiscal 2012 and should be applied prospectively. We are currently evaluating the impact of our pending adoption of ASU 2011-04 on our consolidated financial statements.

***Disclosure Requirements Related to Fair Value Measurements:*** In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements (Topic 820)-Fair Value Measurements and Disclosures* (ASU 2010-06), to add additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, and the activity in Level 3 fair value measurements. Certain provisions of this update will be effective for us in fiscal 2012 and we do not believe these provisions will have a material impact on our consolidated financial statements.

**4. FINANCIAL INSTRUMENTS****FINANCIAL ASSETS**

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

| Assets  | Category              | As of June 30, 2011  |                   | As of December 31, 2010 |                   |
|---|-----------------------|----------------------|-------------------|-------------------------|-------------------|
|   |                       | Estimated Fair Value | Carrying Value    | Estimated Fair Value    | Carrying Value    |
| Cash and cash equivalents (1)                   | Loans and receivables | \$ 127,915           | \$ 127,915        | \$ 178,018              | \$ 178,018        |
| Restricted cash (1)                             | Loans and receivables | 2,405                | 2,405             | 1,205                   | 1,205             |
| Accounts receivable (1)                         | Loans and receivables | 14,494               | 14,494            | 11,885                  | 11,885            |
| Derivative instrument - Riverstone Warrants (1) | Held-for-trading      | 334                  | 334               | 375                     | 375               |
| Available for sale investments (3)              | Available-for-sale    | 1,058                | 1,058             | 928                     | 928               |
| <b>Total financial assets</b>                   |                       | <b>\$ 146,206</b>    | <b>\$ 146,206</b> | <b>\$ 192,411</b>       | <b>\$ 192,411</b> |

**FINANCIAL LIABILITIES**

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

| Liabilities                                       | Category                    | As of June 30, 2011  |                   | As of December 31, 2010 |                   |
|---|-----------------------------|----------------------|-------------------|-------------------------|-------------------|
|   |                             | Estimated Fair Value | Carrying Value    | Estimated Fair Value    | Carrying Value    |
| Accounts payable and accrued liabilities (1)      | Other financial liabilities | \$ 70,728            | \$ 70,728         | \$ 88,457               | \$ 88,457         |
| Derivative instrument-Structured Gold Options (1) | Held-for-trading            | 5,138                | 5,138             |                         |                   |
| Convertible senior unsecured debentures (2)       | Other financial liabilities | 123,473              | 123,062           | 147,779                 | 147,353           |
| Equipment financing loans (2)                     | Other financial liabilities | 15,726               | 15,143            | 16,113                  | 15,714            |
| <b>Total financial liabilities</b>                |                             | <b>\$ 215,065</b>    | <b>\$ 214,071</b> | <b>\$ 252,349</b>       | <b>\$ 251,524</b> |

(1) Carrying amount is a reasonable approximation of fair value.

(2) The fair values of the debt portion of the convertible senior unsecured debentures, the equipment financing loans, and the revolving credit facility are determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rates of comparable debt instruments. The carrying values of these liabilities are shown net of any capitalized loan fees. The fair value of the equity component of the convertible debentures is estimated by a Black Scholes option pricing model.

(3) The fair value represents quoted market prices in an active market.

The following tables illustrate the classification of the Company's financial instruments within the fair value hierarchy as at June 30, 2011. The three levels of the fair value hierarchy are:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and



Level 3 Inputs that are not based on observable market data.

|                                | Financial assets measured at fair value as at<br>June 30, 2011 |         |         |          |
|--------------------------------|--|---------|---------|----------|
|                                | Level 1  | Level 2 | Level 3 | Total    |
| Available for sale investments | \$ 1,058   | \$      | \$      | \$ 1,058 |
| Warrants                       |  | 334     |         | 334      |
|                                | \$ 1,058   | \$ 334  | \$      | \$ 1,392 |

|   | Financial liabilities measured at fair value as at<br>June 30, 2011 |          |            |            |
|---|---|----------|------------|------------|
|   | Level 1   | Level 2  | Level 3    | Total      |
| Convertible senior unsecured debentures | \$  | \$       | \$ 123,473 | \$ 123,473 |
| Gold price derivatives                  |   | 5,138    |            | 5,138      |
|   | \$  | \$ 5,138 | \$ 123,473 | \$ 128,611 |

|                                | Financial assets measured at fair value as at<br>December 31, 2010 |         |         |          |
|--------------------------------|--|---------|---------|----------|
|                                | Level 1  | Level 2 | Level 3 | Total    |
| Available for sale investments | \$ 928   | \$      | \$      | \$ 928   |
| Warrants                       |  | 375     |         | 375      |
|                                | \$ 928   | \$ 375  | \$      | \$ 1,303 |

|   | Financial liabilities measured at fair value as at<br>December 31, 2010 |         |            |            |
|---|---|---------|------------|------------|
|   | Level 1   | Level 2 | Level 3    | Total      |
| Convertible senior unsecured debentures | \$  | \$      | \$ 147,779 | \$ 147,779 |
|   | \$  | \$      | \$ 147,779 | \$ 147,779 |

The convertible senior unsecured debentures are recorded at fair value. These debentures are valued based on discounted cash flows for the debt portion and based on a Black-Scholes model for the equity portion. Inputs used to determine these values were; discount rate 8.86%, Risk Free interest rate of 1.58%, volatility of 71.9%, and a remaining life of 1.5 years. Note 11 - Debt has a more detailed discussion of the debentures.

Fair value measurements using Level 3 inputs

|                              |  |
|------------------------------|--|
|                              | Convertible senior<br>unsecured debentures |
| Balance of December 31, 2010 | \$ 147,779                                 |
| Gain included in net income  | (24,306)                                   |
| Balance at June 30, 2011     | \$ 123,473                                 |

## **5. DERIVATIVE GAINS AND LOSSES**

The derivative mark-to-market (gains)/losses recorded in the Statement of Operations are comprised of the following amounts:

|                                       | For the three months ended |                  | For the six months |                  |
|---------------------------------------|----------------------------|------------------|--------------------|------------------|
|                                       | June 30                    |                  | ended              |                  |
|                                       | 2011                       | 2010             | 2011               | 2010             |
| Riverstone Resources, Inc. - warrants | \$ 315                     | \$ 812           | \$ 41              | \$ (319)         |
| Gold forward price contracts          | 2,115                      | 1,066            | 6,638              | 1,066            |
| Convertible debenture                 | (6,107)                    | 8,955            | (24,292)           | 23,006           |
| <b>Derivative (gain)/loss</b>         | <b>\$ (3,677)</b>          | <b>\$ 10,833</b> | <b>\$ (17,613)</b> | <b>\$ 23,753</b> |

|                               | For the three months ended |                  | For the six months |                  |
|-------------------------------|----------------------------|------------------|--------------------|------------------|
|                               | June 30                    |                  | ended              |                  |
|                               | 2011                       | 2010             | 2011               | 2010             |
| Realized (gain)/loss          | \$ 1,499                   | \$ 1,066         | \$ 1,499           | \$ 1,066         |
| Unrealized (gain)/loss        | (5,176)                    | 9,767            | (19,112)           | 22,687           |
| <b>Derivative (gain)/loss</b> | <b>\$ (3,677)</b>          | <b>\$ 10,833</b> | <b>\$ (17,613)</b> | <b>\$ 23,753</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 2012 at Cdn\$0.45.

### **GOLD PRICE DERIVATIVES**

In January 2011, we entered into a series of put and call contracts covering 76,800 ounces of future gold production between February and December 2011. The contracts are spread evenly in each week over this period and are structured as cashless collars with a floor of \$1,200 per ounce and a cap of \$1,457 per ounce. In early February 2011, we entered into a second set of put and call contracts covering 75,200 ounces of future gold production between February and December 2011. The contacts are spread evenly in each week during this period and are structured as cashless collars with a floor of \$1,200 per ounce and a cap of \$1,503 per ounce. As of June 30, 2011 each tranche had 41,600 ounces outstanding.

### **CONVERTIBLE DEBENTURES**

The convertible senior unsecured debentures are recorded at fair value for U.S. GAAP purposes. These debentures are valued based on discounted cash flows for the debt portion and based on a Black-Scholes model for the equity portion. Inputs used to determine these values were; discount rate 8.86%, Risk Free interest rate of 1.58%, volatility of 71.9%, and a remaining life of 1.5 years. Note 11 - Debt has a more detailed discussion of the debentures



**6. INVENTORIES**

|                        | As of<br>June 30<br>2011 | As of<br>December 31<br>2010 |
|------------------------|--------------------------|------------------------------|
| Stockpiled ore         | \$ 4,712                 | \$ 2,551                     |
| In-process             | 12,390                   | 13,839                       |
| Materials and supplies | 48,775                   | 48,814                       |
| Finished Goods         |                          |                              |
| <b>Total</b>           | <b>\$ 65,877</b>         | <b>\$ 65,204</b>             |

There were approximately 23,000 and 20,000 recoverable ounces of gold in the ore stockpile inventories shown above at June 30, 2011 and December 31, 2010, respectively. Stockpile inventories are short-term surge piles expected to be processed within the next 12 months.

**7. AVAILABLE FOR SALE INVESTMENTS**

The following table presents changes in available for sale investments in the first half of 2011 and the full year 2010:

|                               | As of June 30, 2011<br>Riverstone |                  | As of December 30, 2010<br>Riverstone |                  |
|-------------------------------|-----------------------------------|------------------|---------------------------------------|------------------|
|                               | Fair Value                        | Shares           | Fair Value                            | Shares           |
| <b>Balance at December 31</b> | \$ 928                            | 1,300,000        | \$ 181                                | 700,000          |
| Acquisitions                  | 469                               | 700,000          | 128                                   | 600,000          |
| OCI - unrealized gain/(loss)  | (339)                             |                  | 619                                   |                  |
| <b>Balance as of June 30</b>  | <b>\$ 1,058</b>                   | <b>2,000,000</b> | <b>\$ 928</b>                         | <b>1,300,000</b> |

**8. PROPERTY, PLANT AND EQUIPMENT**

|                      | As of June 30, 2011                            |                             |  | As of December 31, 2010                        |                             |   |
|----------------------|--|-----------------------------|--|--|-----------------------------|---|
|                      | 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       | \$ 164,640                                     | \$ (111,646)                | \$ 52,994  | \$ 157,010                                     | \$ (107,132)                | \$ 49,878   |
| Bogoso sulfide plant | 186,909  | (54,180)                    | 132,729  | 184,641  | (50,988)                    | 133,653   |
| Wassa/HBB            | 101,320  | (52,992)                    | 48,328   | 89,875   | (45,607)                    | 44,268  |
| Corporate & other    | 1,580  | (829)                       | 751  | 1,343  | (775)                       | 568   |
| <b>Total</b>         | <b>\$ 454,449</b>                              | <b>\$ (219,647)</b>         | <b>\$ 234,802</b>  | <b>\$ 432,869</b>                              | <b>\$ (204,502)</b>         | <b>\$ 228,367</b>   |

There was no interest capitalized in new additions to property, plant and equipment in the periods shown above.

**9. MINING PROPERTIES**

|                | As of June 30, 2011 |                          |                             | As of December 31, 2010 |                     |                             |
|----------------|---------------------|--------------------------|-----------------------------|-------------------------|---------------------|-----------------------------|
|                | Mining Properties   | Accumulated Amortization | Mining Properties, Net Book | Mining Properties       | Amortization        | Mining Properties, Net Book |
| Bogoso/Prestea | \$ 109,991          | \$ (58,173)              | \$ 51,818                   | \$ 99,435               | \$ (56,488)         | \$ 42,947                   |
| Bogoso Sulfide | 57,562              | (39,862)                 | 17,700                      | 56,541                  | (37,101)            | 19,440                      |
| Mampon         | 15,995              |                          | 15,995                      | 15,995                  |                     | 15,995                      |
| Wassa / HBB    | 313,936             | (166,219)                | 147,717                     | 303,379                 | (147,558)           | 155,821                     |
| Other          | 19,235              | (2,330)                  | 16,905                      | 18,747                  | (2,330)             | 16,417                      |
| <b>Total</b>   | <b>\$ 516,719</b>   | <b>\$ (266,584)</b>      | <b>\$ 250,135</b>           | <b>\$ 494,097</b>       | <b>\$ (243,477)</b> | <b>\$ 250,620</b>           |

There was no interest capitalized in new additions to mining properties in the periods shown above.

**10. 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 any 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 storage 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 costs are recorded against the asset retirement obligation liability as incurred. At June 30, 2011, and December 31, 2010, the total undiscounted amount of the estimated future cash needs was estimated to be \$76.2 million and \$84.3 million, respectively. Discount rates used to value the ARO range between 8% and 10%. The schedule of payments required to settle the June 30, 2011, ARO liability extends through 2029.

The changes in the carrying amount of the ARO during the six months ended June 30, 2011 and 2010 are as follows:

|                                    | For the six months ended |                  |
|------------------------------------|--------------------------|------------------|
|                                    | 2011                     | 2010             |
| Beginning balance                  | \$ 44,952                | \$ 31,969        |
| Accretion expense                  | 3,116                    | 1,201            |
| Additions and change in estimates  | 3,748                    |                  |
| Cost of reclamation work performed | (11,828)                 | (3,599)          |
| <b>Balance at June 30</b>          | <b>\$ 39,988</b>         | <b>\$ 29,571</b> |
| Current portion                    | \$ 15,459                | \$ 7,520         |
| Long term portion                  | \$ 24,529                | \$ 22,051        |

**11. DEBT**

|                                     | As of             |                     |
|-------------------------------------|-------------------|---------------------|
|                                     | June 30<br>2011   | December 31<br>2010 |
| <b>Current debt:</b>                |                   |                     |
| Equipment financing credit facility | \$ 6,784          | \$ 7,189            |
| Capital lease                       | 1,529             | 2,825               |
| Revolving credit facility           |                   |                     |
| <b>Total current debt</b>           | <b>\$ 8,313</b>   | <b>\$ 10,014</b>    |
| <b>Long term debt:</b>              |                   |                     |
| Equipment financing credit facility | 8,359             | 8,525               |
| Convertible debentures              | 123,062           | 147,353             |
| <b>Total long term debt</b>         | <b>\$ 131,421</b> | <b>\$ 155,878</b>   |

**EQUIPMENT FINANCING CREDIT FACILITY**

GSBPL and GSWL maintain a \$40 million 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. 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%. At June 30, 2011, approximately \$24.8 million was available to draw down. The average interest rate on the outstanding loans was approximately 7.1% at June 30, 2011. 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.

**CAPITAL LEASE**

In February 2010, GSBPL accepted delivery of a nominal 20 megawatt power plant. Upon acceptance, a \$4.9 million liability was recognized which, at the time, was equal to the present value of future lease payments. The life of the lease is two years from the plant's February 2010 in-service date. We are required to pay the owner/operator a minimum of \$0.3 million per month on the lease, of which \$0.23 million will be allocated to principal and interest on the recognized liability and the remainder of the monthly payments will be charged as operating costs.

**CONVERTIBLE DEBENTURES**

Interest on the \$125 million aggregate principal amount of 4.0% convertible senior unsecured debentures due November 30, 2012, (the Debentures ) is payable semi-annually in arrears on May 31 and November 30 of each year. The Debentures are, subject to certain limitations, convertible into common shares at a conversion rate of 200 shares per \$1,000 principal amount of the Debentures (equal to a conversion price of \$5.00 per share) subject to adjustment under certain circumstances. The Debentures are not redeemable at our option. On maturity, we may, at our option, satisfy our repayment obligation by paying the principal amount of the Debentures in cash or, subject to certain limitations, by issuing that number of our common shares obtained by dividing the principal amount of the Debentures outstanding by 95% of the weighted average trading price of our common shares on the NYSE Amex stock exchange for the 20 consecutive trading days ending five trading days preceding the maturity date (the Market Price ).

Upon the occurrence of certain change in control transactions, the holders of the Debentures may require us to purchase the Debentures for cash at a price equal to 101% of the principal amount plus accrued and unpaid interest. If 10% or more of the fair market value of any such change in control consideration consists of cash, the holders may convert their Debentures and receive a number of additional common shares, determined as set forth in the Indenture.

The Debentures are direct senior unsecured indebtedness of Golden Star Resources Ltd., ranking equally and ratably with all our other senior unsecured indebtedness, and senior to all our subordinated indebtedness. None of our subsidiaries have guaranteed the Debentures, and the Debentures do not limit the amount of debt that we or our subsidiaries may incur.





See Note 4 Financial Liabilities and Note 5 Derivative Gains and Losses for additional information on the fair value of these convertible debentures.

## REVOLVING CREDIT FACILITY

We have a revolving credit facility agreement (the Facility Agreement) with Standard Chartered Bank which extends through September 30, 2012. The Facility currently provides us with \$40.5 million of borrowing capacity 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. As of June 30, 2011, the outstanding balance was nil. The amount available under the Facility will be reduced, as scheduled in the agreement, by \$9.0 million on December 31, 2011. Covenants require that we meet certain financial ratios at the end of each quarter, including that in excess of 90% of our assets are retained within a group of subsidiaries whose common shares are pledged as collateral for amounts drawn under the revolving credit facility. We were in compliance with all covenants at June 30, 2011 and December 31, 2010.

## 12. INCOME TAXES

The provision for income taxes includes the following components:

|                 | For the three months ended |            | For the six months |            |
|-----------------|----------------------------|------------|--------------------|------------|
|                 | June 30                    |            | ended              |            |
|                 | 2011                       | 2010       | 2011               | 2010       |
| Current expense |                            |            |                    |            |
| Canada          | \$                         | \$         | \$                 | \$         |
| Foreign         | (686)                      | (470)      | (1,684)            | (988)      |
| Future expense  |                            |            |                    |            |
| Canada          |                            |            |                    |            |
| Foreign         | (3,115)                    | (781)      | (6,422)            | (1,791)    |
| Total expense   | \$ (3,801)                 | \$ (1,251) | \$ (8,106)         | \$ (2,779) |

The future tax expense is related to the change in the temporary difference between book and tax basis at GSWL.

The current tax expense is related to a temporary tax levy on certain Ghanaian industries, including mining, brewing, banking, communications and insurance. The levy is set at 5% of profits before tax as disclosed on the statements of operations. The effective period of this levy has extended to 2011.

## 13. COMMITMENTS AND CONTINGENCIES

Our commitments and contingencies include the following items:

### ENVIRONMENTAL BONDING IN GHANA

In July 2011 we increased a letter of credit for Wassas environmental bonding from \$2.85 million to \$7.8 million. This brought the total bonded amount, including \$0.15 million of cash, from \$3.0 million to \$7.95 million.

We have also bonded \$9.0 million to cover rehabilitation and closure obligations at Bogoso/Prestea. These bonding requirements have been met by an \$8.1 million letter of credit from a commercial bank and a \$0.9 million cash deposit held by the EPA. The cash deposits are recorded as Restricted Cash on our Consolidated Balance Sheets.

In 2008, Bogoso/Prestea resubmitted an updated draft of the Environmental Management Plan (EMP) to the EPA that included an updated estimate of the reclamation and closure costs prepared by a third party consultant. A consultant was commissioned to prepare the reclamation and closure cost estimate and the final EMP was submitted to the EPA in February 2009. Bogoso/Prestea has completed all the legal requirements and is waiting for the environmental certificate.

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In March 2011, we provided \$12 million of reclamation bonding to the Ghana Environmental Protection Agency ( EPA ) to cover backfilling of the Plant North pit at Prestea which we mined from 2003 to 2006. The bonding requirements were met by a \$1.2 million cash deposit and a \$10.8 million letter of credit from a commercial bank. Provisions of the bond allow the bonded amount to be reduced as cash is spent on the progress of the backfill project. In the second quarter of 2011 the bonded amount was reduced by \$2.7 million.

## ROYALTIES

### Dunkwa Properties

As part of the acquisition of the Dunkwa properties in 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

The Ghana Government royalty has been set at a flat rate of 5% of mineral revenues and became effective March 31, 2011.

### Benso

Benso pays a \$1.00 per ounce gold production royalty to former owners.

### Hwini-Butre

As part of the agreement for the purchase of the Hwini-Butre properties, Golden Star agreed to pay B.D. Goldfields Ltd, Hwini-Butre's former owner, an additional \$1.0 million in cash 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. Gold production was initiated at Hwini-Butre in May 2009. It is not possible at this time to know if future exploration work will increase Hwini-Butre's reserves sufficiently to yield production of one million ounces prior to May 2014.

## EXPLORATION AGREEMENTS

### Obuom

In October 2007, we entered into an agreement with AMI Resources Inc. (AMI), which gives AMI the right to earn our 54% ownership position in the Obuom property in Ghana. Should AMI eventually obtain full rights to our position on the property and develop a gold mining operation at Obuom, we would receive from AMI a 2% net smelter return royalty on 54% of the property's gold production.

### 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 were entitled to receive up to 2 million shares of Riverstone over the term of the option, all of which were received as of March 31, 2011. In addition we received a one-time distribution of two million Riverstone common share purchase warrants during 2008. The Riverstone purchase warrants have an exercise price of Cdn\$0.45.

## LEGAL PROCEEDINGS

### B.D. Goldfields Action

On July 19, 2011 B.D. Goldfields, Ltd. (plaintiff), a Ghanaian registered company, filed suit in the Superior Court of Judicature in the High Court of Justice, Commercial Division in Accra, Ghana (suit number RPC/282/2011), against Golden Star Resources Ltd. and our subsidiary St. Jude Resources Ltd. The plaintiff is challenging the validity of the concession contracts and settlements related to our acquisition of the Hwini-Butre gold property in Ghana in 2006. More specifically the plaintiff is taking the position that the original sales agreement covered only a small section of the Hwini-Butre concession and is now seeking \$24 million plus a royalty for the remaining portion of the concession. The plaintiff has previously filed similar suits in other jurisdictions, challenging our ownership of the Hwini-Butre concession and these prior claims were dismissed by the courts. The plaintiff is seeking an injunction which would halt mining on the concession until all legal issues are resolved. No further developments are expected in this litigation until October 2011 when the court reconvenes after its recess.



**14. SHARE CAPITAL**

Changes in share capital during the six months ended June 30, 2011 are as follows:

|                          | Shares      | Amount     |
|--------------------------|-------------|------------|
| Balance at December 31   | 258,511,236 | \$ 693,487 |
| Common shares issued:    |             |            |
| Equity offering (net)    |             |            |
| Option exercises         | 73,250      | 218        |
| Balance at June 30, 2011 | 258,584,486 | \$ 693,705 |

We held no treasury shares as of December 31, 2010 and June 30, 2011.

**15. COST OF SALES**

|  | For the three months ended<br>June 30 |            | For the six months ended<br>June 30 |            |
|--|---------------------------------------|------------|-------------------------------------|------------|
|  | 2011                                  | 2010       | 2011                                | 2010       |
| Mining operations costs                      | \$ 82,621                             | \$ 74,809  | \$ 171,100                          | \$ 139,326 |
| Operations costs from/(to) metal inventory   | 2,231                                 | 1,146      | (459)                               | 234        |
| Mining related depreciation and amortization | 15,490                                | 27,298     | 36,519                              | 52,732     |
| Accretion of asset retirement obligations    | 2,183                                 | 601        | 3,116                               | 1,201      |
| Total Cost of Sales                          | \$ 102,525                            | \$ 103,854 | \$ 210,276                          | \$ 193,493 |

**16. STOCK BASED COMPENSATION****STOCK OPTIONS**

We have one stock option plan, the Third Amended and Restated 1997 Stock Option Plan (the "Plan") approved by shareholders in May 2010, under which options are granted 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 25,000,000 shares, of which 9,213,846 are available for grant as of June 30, 2011, 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 three years from the date of grant. Vesting periods are determined at the discretion of the Board of Directors.

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

|                                  | For the three months ended |        | For the six months |          |
|----------------------------------|----------------------------|--------|--------------------|----------|
|                                  | June 30th                  |        | ended              |          |
|                                  | 2011                       | 2010   | 2011               | 2010     |
| Total stock compensation expense | \$ 879                     | \$ 502 | \$ 2,220           | \$ 1,919 |

We granted 1,918,000 and 1,308,500 options during the second quarters of 2011 and 2010, respectively. We do not receive a tax deduction for the issuance of options. As a result we do not recognize any income tax benefit related to the stock compensation expense.

The fair value of our option grants are estimated at the grant dates using the Black-Scholes option-pricing model. Fair values of options granted in the first six months of 2011 and 2010 were based on the assumptions noted in the following table:

|                         | For the six months ended |                  |
|-------------------------|--------------------------|------------------|
|                         | June 30                  |                  |
|                         | 2011                     | 2010             |
| Expected volatility     | 66.33 to 69.79%          | 67.95 to 77.37%  |
| Risk-free interest rate | 2.17 to 2.26%            | 2.34 to 2.58%    |
| Expected lives          | 5.6 to 8.5 years         | 6.0 to 8.6 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 and this data is used in determining input data for 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 during the six months ended June 30, 2011:

|                                     | Options<br>( '000) | Weighted<br>Average<br>Exercise<br>price<br>(Cdn\$) | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>intrinsic<br>value<br>Cdn(\$'000) |
|-------------------------------------|--------------------|---|---|--|
| Outstanding as of December 31, 2010 | 6,724              | 3.35  | 7.0   | 9,001  |
| Granted                             | 1,918              | 2.80  | 10.0  |  |
| Exercised                           | (73)               | 2.14  | 5.0   |  |
| Forfeited, cancelled and expired    | (128)              | 3.65  | 6.0   |  |
| Outstanding as of June 30, 2011     | 8,441              | 3.23  | 7.0   | 711  |
| Exercisable as of June 30, 2011     | 5,923              | 3.34  | 7.0   | 556  |

#### Stock Bonus Plan

In December 1992, we established an Employees Stock Bonus Plan (the Bonus Plan). The activity and status of the Bonus Plan is unchanged from what was disclosed in our December 31, 2010 annual report on Form 10-K.

#### Deferred Share Units

On March 9, 2011 the Board adopted a Deferred Share Unit Plan ( DSU plan ) which was subsequently approved by shareholders at the May 2011 annual meeting. The DSU Plan creates Deferred Share Units ( DSUs ) representing the right to receive one share of Golden Star common stock upon redemption. DSUs may be redeemed only upon termination of the holder's services to the Company, and may be subject to vesting provisions. DSU awards are granted at the sole discretion of the Company's compensation committee. The DSU Plan allows directors, at their option, to receive all or any portion of their retainer by accepting DSUs in lieu of cash.

The compensation committee may also award DSUs to executive officers and/or directors in lieu of cash as a component of their long term performance compensation, the amount of such awards being in proportion to the officer's/director's achievement of pre-determined performance goals. As with DSU awards for directors' retainers, DSUs received as performance compensation are redeemable only upon termination of the holder's services to the Company. The Company may, at its option, provide cash in lieu of common shares upon a holder's redemption, the cash value being established by the share price on the DSU original award date, less all applicable tax withholding. There were nil DSUs outstanding at June 30, 2011.

**17. EARNINGS PER COMMON SHARE**

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

|   | For the three months ended |            | For the six months |             |
|---|----------------------------|------------|--------------------|-------------|
|   | June 30                    |            | ended              |             |
|   | 2011                       | 2010       | 2011               | 2010        |
| Net income/(loss) attributable to Golden Star shareholders            | \$ (5,048)                 | \$ (5,618) | \$ 880             | \$ (14,869) |
| Weighted average number of diluted shares (millions)                  | 258.6                      | 257.9      | 258.6              | 257.7       |
| Dilutive securities:  |                            |            |                    |             |
| Options   | 1.0                        | 2.0        | 0.6                | 1.6         |
| Convertible debentures  |                            |            |                    |             |
| Weighted average number of diluted shares                             | 259.6                      | 259.9      | 259.2              | 259.3       |
| Net income/(loss) per share attributable to Golden Star shareholders: |                            |            |                    |             |
| Basic   | \$ (0.020)                 | \$ (0.022) | \$ 0.003           | \$ (0.058)  |
| Diluted   | \$ (0.020)                 | \$ (0.022) | \$ 0.003           | \$ (0.058)  |

**18. OPERATIONS BY SEGMENT AND GEOGRAPHIC AREA**

| As of and for the three months ended June 30  | Africa             |               |         |                  |           | Total      |
|---|--------------------|---------------|---------|------------------|-----------|------------|
|   | Bogoso/<br>Prestea | Wassa/<br>HBB | Other   | South<br>America | Corporate |            |
| 2011  |                    |               |         |                  |           |            |
| Revenues                                      | \$ 51,609          | \$ 58,198     | \$      | \$               | \$        | \$ 109,807 |
| Net income/(loss) attributable to Golden Star | (8,166)            | 8,374         | (675)   | (167)            | (4,414)   | (5,048)    |
| Income tax (expense)/benefit                  |                    | (3,801)       |         |                  |           | (3,801)    |
| Capital expenditure                           | 12,508             | 6,456         | 178     |                  |           | 19,142     |
| Total assets                                  | 359,857            | 247,332       | 4,255   | (253)            | 105,930   | 717,121    |
| 2010  |                    |               |         |                  |           |            |
| Revenues                                      | \$ 63,255          | \$ 57,052     | \$      | \$               | \$        | \$ 120,307 |
| Net income/(loss) attributable to Golden Star | 9,671              | 1,887         | (961)   | (19)             | (16,196)  | (5,618)    |
| Income tax (expense)/benefit                  |                    | (1,251)       |         |                  |           | (1,251)    |
| Capital expenditure                           | 6,060              | 5,898         | 537     | 89               | 94        | 12,678     |
| Total assets                                  | 344,865            | 232,517       | 3,766   | 213              | 160,213   | 741,574    |
| As of and for the six months ended June 30    | Africa             |               |         |                  |           | Total      |
|   | Bogoso/<br>Prestea | Wassa/<br>HBB | Other   | South<br>America | Corporate |            |
| 2011  |                    |               |         |                  |           |            |
| Revenues                                      | \$ 94,097          | \$ 132,216    | \$      | \$               | \$        | \$ 226,313 |
| Net income/(loss) attributable to Golden Star | (15,770)           | 19,015        | (1,380) | (264)            | (721)     | 880        |
| Income tax (expense)                          |                    | (8,106)       |         |                  |           | (8,106)    |
| Capital expenditure                           | 20,850             | 16,769        | 275     |                  |           | 37,894     |
| Total assets                                  | 359,857            | 247,332       | 4,255   | (253)            | 105,930   | 717,121    |
| 2010  |                    |               |         |                  |           |            |
| Revenues                                      | \$ 114,209         | \$ 109,362    | \$      | \$               | \$        | \$ 223,571 |
| Net income/(loss) attributable to Golden Star | 15,605             | 6,411         | (1,277) | 134              | (35,741)  | (14,868)   |
| Income tax (expense)                          |                    | (2,780)       |         |                  |           | (2,780)    |
| Capital expenditure                           | 16,691             | 8,102         | 1,583   |                  | 94        | 26,470     |
| Total assets                                  | 344,865            | 232,517       | 3,766   | 213              | 160,213   | 741,574    |





**19. RELATED PARTIES**

During the first six months of 2011, we obtained legal services from a firm to which one of our board members is of counsel. The cost of services incurred from this firm during the first six months of 2011 and 2010 was \$0.2 million and \$0.5 million, respectively. Our board member did not personally provide any legal services to the Company during these periods nor did he benefit directly or indirectly from payments for the services performed by the firm.

**20. SUPPLEMENTAL CASH FLOW INFORMATION**

In the first half of 2011, \$1.8 million was paid for income taxes. Cash paid for income taxes during the first half of 2010 was \$1.0 million. Cash paid for interest was \$3.1 million in the first half of 2011 and, \$3.6 million in the first half of 2010.

In February 2010, the company recognized a non-cash \$4.9 million liability and an offsetting \$4.9 million asset related to delivery of a 10 megawatt power plant upon successful commissioning of a stand-by power plant by Bogoso.

**21. INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Our consolidated financial statements have been prepared in accordance with U.S. GAAP which differ from financial statements prepared in accordance with IFRS. The effect of applying IFRS to our financial statements is shown below:

**CONSOLIDATED BALANCE SHEETS UNDER IFRS**

|   | US GAAP<br>As of<br>June 30<br>2011 | Note | Adjustments | IFRS<br>As of<br>June 30<br>2011 | IFRS<br>As of<br>December 31<br>2010 |
|---|-------------------------------------|------|-------------|----------------------------------|--------------------------------------|
| <b>ASSETS</b>   |                                     |      |             |                                  |                                      |
| <b>CURRENT ASSETS</b>   |                                     |      |             |                                  |                                      |
| Cash and cash equivalents   | \$ 127,915                          |      |             | \$ 127,915                       | \$ 178,018                           |
| Accounts receivable   | 14,494                              |      |             | 14,494                           | 11,885                               |
| Inventories   | 65,877                              | 1    | (167)       | 65,710                           | 65,204                               |
| Deposits  | 9,814                               |      |             | 9,814                            | 5,865                                |
| Prepays and other   | 2,735                               |      |             | 2,735                            | 1,523                                |
| <b>Total Current Assets</b>   | <b>220,835</b>                      |      |             | <b>220,668</b>                   | <b>262,495</b>                       |
| RESTRICTED CASH   | 2,405                               |      |             | 2,405                            | 1,205                                |
| PROPERTY, PLANT AND EQUIPMENT   | 234,802                             |      |             | 234,802                          | 227,367                              |
| INTANGIBLE ASSETS   | 6,319                               |      |             | 6,319                            | 7,373                                |
| MINING PROPERTIES   | 250,135                             | 2, 3 | 38,721      | 288,856                          | 293,102                              |
| DEFERRED EXPLORATION  |                                     | 4    | 15,552      | 15,552                           | 14,487                               |
| OTHER ASSETS  | 2,625                               |      |             | 2,625                            | 3,168                                |
| <b>Total Assets</b>   | <b>\$ 717,121</b>                   |      |             | <b>\$ 771,227</b>                | <b>\$ 809,197</b>                    |
| <b>LIABILITIES</b>  |                                     |      |             |                                  |                                      |
| <b>CURRENT LIABILITIES</b>  |                                     |      |             |                                  |                                      |
| Accounts payable  | \$ 22,959                           |      |             | \$ 22,959                        | \$ 34,522                            |
| Accrued liabilities   | 47,769                              |      |             | 47,769                           | 53,935                               |
| Fair value of derivatives   | 5,138                               |      |             | 5,138                            |                                      |
| Asset retirement obligations  | 15,459                              |      |             | 15,459                           | 23,485                               |
| Current tax liability   | 761                                 |      |             | 761                              | 1,128                                |
| Current debt  | 8,313                               |      |             | 8,313                            | 10,014                               |
| <b>Total Current Liabilities</b>  | <b>100,399</b>                      |      |             | <b>100,399</b>                   | <b>123,084</b>                       |
| LONG TERM DEBT  | 131,421                             | 6    | (10,413)    | 121,008                          | 117,290                              |
| ASSET RETIREMENT OBLIGATIONS  | 24,529                              | 3    | 16,552      | 41,081                           | 42,826                               |
| CAPITAL LEASES  |                                     |      |             |                                  |                                      |
| NET DEFERRED TAX LIABILITY  | 22,024                              | 5    | 5,892       | 27,916                           | 21,094                               |
| <b>Total Liabilities</b>  | <b>\$ 278,373</b>                   |      |             | <b>\$ 290,404</b>                | <b>\$ 304,294</b>                    |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                                     |      |             |                                  |                                      |
| <b>SHAREHOLDERS EQUITY</b>  |                                     |      |             |                                  |                                      |
| <b>SHARE CAPITAL</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: 258,559,486 at March 31, 2011; 258,511,236 at December 31, 2010 |                                     |      |             |                                  |                                      |
|   | 693,705                             |      |             | 693,705                          | 693,487                              |

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|   |            |   |        |            |            |
|---|------------|---|--------|------------|------------|
| CONTRIBUTED SURPLUS                       | 18,720     | 7 | 1,019  | 19,739     | 17,433     |
| EQUITY COMPONENT OF CONVERTIBLE NOTES     |            | 6 | 34,542 | 34,542     | 34,542     |
| ACCUMULATED OTHER COMPREHENSIVE INCOME    | 1,620      |   |        | 1,620      | 1,959      |
| DEFICIT                                   | (273,156)  |   | 3,666  | (269,490)  | (243,930)  |
| TOTAL GOLDEN STAR EQUITY                  | 440,889    |   |        | 480,116    | 503,491    |
| NONCONTROLLING INTEREST                   | (2,141)    | 8 | 2,848  | 707        | 1,412      |
| TOTAL EQUITY                              | 438,748    |   |        | 480,823    | 504,903    |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 717,121 |   |        | \$ 771,227 | \$ 809,197 |

**CONSOLIDATED STATEMENTS OF OPERATIONS UNDER IFRS**

|  | US GAAP<br>For the three<br>months ended |       |             | IFRS<br>For the three<br>months ended | IFRS<br>For the three<br>months ended |
|--|--|-------|-------------|---------------------------------------|---------------------------------------|
|  | June 30<br>2011                          | Note  | Adjustments | June 30<br>2011                       | June 30<br>2010                       |
| <b>REVENUE</b>   |  |       |             |                                       |                                       |
| Gold revenues  | \$ 109,807                               |       |             | \$ 109,807                            | \$ 120,307                            |
| Cost of sales  | 102,525                                  | 1,2,3 | (526)       | 101,999                               | 100,347                               |
| <b>Mine operating margin</b>   | 7,282                                    |       |             | 7,808                                 | 19,960                                |
| Exploration expense  | 1,569                                    | 4     | (1,021)     | 548                                   | 451                                   |
| General and administrative expense                                   | 7,252                                    | 7     | 92          | 7,344                                 | 4,219                                 |
| Abandonment and impairment   |  | 4     | 167         | 167                                   | 71                                    |
| Derivative mark-to-market gains                                      | (3,677)                                  | 6     | 6,107       | 2,430                                 | 1,878                                 |
| Property holding costs   | 1,689                                    |       |             | 1,689                                 | 1,197                                 |
| Fair value of debt   |  |       |             |                                       |                                       |
| Foreign exchange loss  | 462                                      |       |             | 462                                   | 204                                   |
| Interest expense   | 2,112                                    | 6     | 1,875       | 3,987                                 | 4,167                                 |
| Interest and other income  | (63)                                     |       |             | (63)                                  | (97)                                  |
| Minority interest  | 2  |       |             | 2                                     |                                       |
| Gain on sale of investments  |  |       |             |                                       |                                       |
| Net income/(loss) before income tax                                  | (2,064)                                  |       |             | (8,758)                               | 7,870                                 |
| Income tax expense   | (3,801)                                  | 5     | 365         | (3,436)                               | (2,572)                               |
| <b>Net income/(loss)</b>   | \$ (5,865)                               |       |             | \$ (12,194)                           | \$ 5,298                              |
| Net income/(loss) attributable to noncontrolling interest            | (817)                                    | 8     | 389         | (428)                                 | 1,549                                 |
| <b>Net income/(loss) attributable to Golden Star shareholders</b>    | (5,048)                                  |       |             | (11,766)                              | 3,749                                 |
| <b>Net loss attributable to Golden Star shareholders per share:</b>  |  |       |             |                                       |                                       |
| Basic  | \$ (0.020)                               |       |             | \$ (0.045)                            | \$ 0.015                              |
| Diluted  | \$ (0.020)                               |       |             | \$ (0.045)                            | \$ 0.014                              |
| Weighted average shares outstanding (millions)                       | 258.6                                    |       |             | 258.6                                 | 257.9                                 |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>                             |  |       |             |                                       |                                       |
| Net income/(loss)  | \$ (5,865)                               |       |             | \$ (12,194)                           | \$ 5,298                              |
| Other comprehensive income   | (424)                                    |       |             | (424)                                 | (592)                                 |
| Comprehensive income/(loss)  | \$ (6,289)                               |       |             | \$ (12,618)                           | \$ 4,706                              |
| Comprehensive income/(loss) attributable to Golden Star shareholders | \$ (5,472)                               |       |             | \$ (12,190)                           | \$ 3,157                              |
| Comprehensive income attributable to noncontrolling interest         | (817)                                    |       |             | (428)                                 | 1,549                                 |
| Comprehensive income/(loss)  | \$ (6,289)                               |       |             | \$ (12,618)                           | \$ 4,706                              |
| Deficit, beginning of period   | \$ (268,108)                             |       |             | \$ (257,723)                          | \$ (238,436)                          |
| Deficit, end of period   | \$ (273,156)                             |       |             | \$ (269,489)                          | \$ (234,687)                          |



|  | US GAAP<br>For the six<br>months ended<br>June 30<br>2011 | Note  | Adjustments | IFRS<br>For the six<br>months ended<br>June 30<br>2011 | IFRS<br>For the six<br>months ended<br>June 30<br>2010 |
|--|---|-------|-------------|--|--|
| <b>REVENUE</b>   |   |       |             |  |  |
| Gold revenues  | \$ 226,313  |       |             | \$ 226,313   | \$ 223,571   |
| Cost of sales  | 210,276   | 1,2,3 | (1,215)     | 209,061  | 188,822  |
| <b>Mine operating margin</b>   | 16,037  |       |             | 17,252   | 34,749   |
| Exploration expense  | 2,148   | 4     | (1,231)     | 917  | 678  |
| General and administrative expense                                   | 14,354  | 7     | 146         | 14,500   | 9,248  |
| Abandonment and impairment   |   | 4     | 167         | 167  | 347  |
| Derivative mark-to-market gains                                      | (17,613)  | 6     | 24,292      | 6,679  | 747  |
| Property holding costs   | 4,363   |       |             | 4,363  | 2,298  |
| Fair value of debt   |   |       |             |  |  |
| Foreign exchange loss  | 719   |       |             | 719  | 571  |
| Interest expense   | 4,470   | 6     | 3,886       | 8,356  | 8,296  |
| Interest and other income  | (102)   |       |             | (102)  | (295)  |
| Minority interest  | 2   |       |             | 2  |  |
| Gain on sale of investments  |   |       |             |  |  |
| Net income/(loss) before income tax                                  | 7,696   |       |             | (18,349)   | 12,859   |
| Income tax expense   | (8,106)   | 5     | 136         | (7,970)  | (4,943)  |
| <b>Net income/(loss)</b>   | \$ (410)  |       |             | \$ (26,319)  | \$ 7,916   |
| Net income/(loss) attributable to noncontrolling interest            | (1,290)   | 8     | 530         | (760)  | 2,060  |
| <b>Net income/(loss) attributable to Golden Star shareholders</b>    | 880   |       |             | (25,559)   | 5,856  |
| <b>Net loss attributable to Golden Star shareholders per share:</b>  |   |       |             |  |  |
| Basic  | \$ 0.003  |       |             | \$ (0.099)   | \$ 0.023   |
| Diluted  | \$ 0.003  |       |             | \$ (0.099)   | \$ 0.023   |
| Weighted average shares outstanding (millions)                       | 258.6   |       |             | 258.6  | 257.7  |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>                             |   |       |             |  |  |
| Net income/(loss)  | \$ (410)  |       |             | \$ (26,319)  | \$ 7,916   |
| Other comprehensive income   | (339)   |       |             | (339)  | 340  |
| Comprehensive income/(loss)  | \$ (749)  |       |             | \$ (26,658)  | \$ 8,256   |
| Comprehensive income/(loss) attributable to Golden Star shareholders | \$ 541  |       |             | \$ (25,898)  | \$ 6,196   |
| Comprehensive income attributable to noncontrolling interest         | (1,290)   |       |             | (760)  | 2,060  |
| Comprehensive income/(loss)  | \$ (749)  |       |             | \$ (26,658)  | \$ 8,256   |
| Deficit, beginning of period   | \$ (274,036)  |       |             | \$ (243,930)   | \$ (240,543)   |
| Deficit, end of period   | \$ (273,156)  |       |             | \$ (269,489)   | \$ (234,687)   |

**CONSOLIDATED STATEMENTS OF CASH FLOWS UNDER IFRS**

|   | US GAAP<br>For the three<br>months<br>ended<br>June 30<br>2011 | Note | Adjustments | IFRS<br>For the three<br>months<br>ended<br>June 30<br>2011 | IFRS<br>For the three<br>months<br>ended<br>June 30<br>2010 |
|---|--|------|-------------|---|---|
| <b>OPERATING ACTIVITIES:</b>  |  |      |             |   |   |
| Net loss  | \$ (5,865)   |      | (6,329)     | \$ (12,194)   | \$ 5,298  |
| <b>Reconciliation of net loss to net cash provided by operating activities:</b> |  |      |             |   |   |
| Depreciation, depletion and amortization  | 15,274   | 2, 4 | 2,618       | 17,892  | 30,911  |
| Amortization of loan acquisition cost   | 318  |      |             | 318   | (159)   |
| Abandonment and impairment  |  | 4    | 167         | 167   |   |
| Gain/Loss on sale of assets   | 2  |      |             | 2   | 71  |
| Non cash employee compensation  | 879  | 7    | 92          | 971   | 577   |
| Future income tax expense   | 3,040  | 5    | (365)       | 2,675   | 1,472   |
| Fair value of derivatives   | 930  |      |             | 930   | 812   |
| Fair value (gains)/losses on convertible debt                                   | (6,107)  | 6    | 6,107       |   |   |
| Accretion of asset retirement obligations                                       | 2,183  | 3    | (1,851)     | 332   | 2,462   |
| Reclamation expenditures  | (7,945)  |      |             | (7,945)   | (2,049)   |
|   | 2,709  |      |             | 3,148   | 39,395  |
| Changes in non-cash working capital:  |  |      |             |   |   |
| Accounts receivable   | (1,779)  |      |             | (1,779)   | (11,692)  |
| Inventories   | (15)   | 2    | 167         | 152   | (411)   |
| Deposits  | 245  |      |             | 245   | (364)   |
| Accounts payable and accrued liabilities  | (2,185)  |      |             | (2,185)   | 6,722   |
| Other   | (425)  | 6    | 1,875       | 1,450   | 3,230   |
| Net cash provided by operating activities                                       | (1,450)  |      |             | 1,031   | 36,880  |
| <b>INVESTING ACTIVITIES:</b>  |  |      |             |   |   |
| Expenditures on deferred exploration projects                                   |  | 4    | (1,020)     | (1,020)   | (795)   |
| Expenditures on mining properties   | (9,191)  | 2    | (1,461)     | (10,652)  | (15,915)  |
| Expenditures on property, plant and equipment                                   | (9,951)  |      |             | (9,951)   | (5,461)   |
| Proceeds from the sale of assets  |  |      |             |   |   |
| Change in accounts payable and deposits on mine equipment and material          | (4,077)  |      |             | (4,077)   | 2,593   |
| Other   |  |      |             |   | 1,332   |
| Net cash used in investing activities   | (23,219)   |      |             | (25,700)  | (18,246)  |
| <b>FINANCING ACTIVITIES:</b>  |  |      |             |   |   |
| Principal payments on debt  | (2,573)  |      |             | (2,573)   | (8,197)   |
| Proceeds from debt agreements and equipment financing                           | 3,470  |      |             | 3,470   | 4,506   |
| Other   | 26   |      |             | 26  | 1,437   |
| Net cash provided by financing activities                                       | 923  |      |             | 923   | (2,254)   |
| Increase in cash and cash equivalents   | (23,746)   |      |             | (23,746)  | 16,380  |
| Cash and cash equivalents, beginning of period                                  | 151,661  |      |             | 151,661   | 164,852   |
| Cash and cash equivalents end of period   | \$ 127,915   |      |             | \$ 127,915  | \$ 181,232  |





|   | US GAAP                        |      |             | IFRS                        | IFRS                        |
|---|--------------------------------|------|-------------|-----------------------------|-----------------------------|
|   | For the six<br>months<br>ended |      |             | For the six<br>months ended | For the six<br>months ended |
|   | June 30<br>2011                | Note | Adjustments | June 30<br>2011             | June 30<br>2010             |
| <b>OPERATING ACTIVITIES:</b>  |                                |      |             |                             |                             |
| Net loss  | \$ (410)                       |      | (25,909)    | \$ (26,319)                 | \$ 7,916                    |
| <b>Reconciliation of net loss to net cash provided by operating activities:</b> |                                |      |             |                             |                             |
| Depreciation, depletion and amortization  | 36,492                         | 2, 4 | 2,529       | 39,021                      | 53,842                      |
| Amortization of loan acquisition cost   | 672                            |      |             | 672                         | (195)                       |
| Abandonment and impairment  |                                | 4    | 167         | 167                         |                             |
| Gain/Loss on sale of assets   | 2                              |      |             | 2                           | 347                         |
| Non cash employee compensation  | 2,220                          | 7    | 146         | 2,366                       | 2,055                       |
| Future income tax expense   | 6,347                          | 5    | (136)       | 6,211                       | 3,338                       |
| Fair value of derivatives   | 5,179                          |      |             | 5,179                       | (319)                       |
| Fair value (gains)/losses on convertible debt                                   | (24,292)                       | 6    | 24,292      |                             |                             |
| Accretion of asset retirement obligations                                       | 3,116                          | 3    | (2,451)     | 665                         | 4,425                       |
| Reclamation expenditures  | (11,828)                       |      |             | (11,828)                    | (3,600)                     |
|   | 17,498                         |      |             | 16,136                      | 67,809                      |
| <b>Changes in non-cash working capital:</b>                                     |                                |      |             |                             |                             |
| Accounts receivable   | (2,804)                        |      |             | (2,804)                     | (12,429)                    |
| Inventories   | (421)                          | 2    | 167         | (254)                       | (4,312)                     |
| Deposits  | (700)                          |      |             | (700)                       | (280)                       |
| Accounts payable and accrued liabilities  | (18,799)                       |      |             | (18,799)                    | 4,603                       |
| Other   | (2,089)                        | 6    | 3,886       | 1,797                       | 4,041                       |
| Net cash provided by operating activities                                       | (7,315)                        |      |             | (4,624)                     | 59,432                      |
| <b>INVESTING ACTIVITIES:</b>  |                                |      |             |                             |                             |
| Expenditures on deferred exploration projects                                   |                                | 4    | (1,230)     | (1,230)                     | (1,871)                     |
| Expenditures on mining properties   | (18,031)                       | 2    | (1,461)     | (19,492)                    | (17,879)                    |
| Expenditures on property, plant and equipment                                   | (19,863)                       |      |             | (19,863)                    | (17,289)                    |
| Proceeds from the sale of assets  |                                |      |             |                             |                             |
| Change in accounts payable and deposits on mine equipment and material          | (3,184)                        |      |             | (3,184)                     | 2,593                       |
| Other   |                                |      |             |                             | 2,220                       |
| Net cash used in investing activities   | (41,078)                       |      |             | (43,769)                    | (32,226)                    |
| <b>FINANCING ACTIVITIES:</b>  |                                |      |             |                             |                             |
| Principal payments on debt  | (5,338)                        |      |             | (5,338)                     | (16,410)                    |
| Proceeds from debt agreements and equipment financing                           | 3,470                          |      |             | 3,470                       | 14,506                      |
| Other   | 158                            |      |             | 158                         | 1,842                       |
| Net cash provided by financing activities                                       | (1,710)                        |      |             | (1,710)                     | (62)                        |
| Increase in cash and cash equivalents   | (50,103)                       |      |             | (50,103)                    | 27,144                      |
| Cash and cash equivalents, beginning of period                                  | 178,018                        |      |             | 178,018                     | 154,088                     |
| Cash and cash equivalents end of period   | \$ 127,915                     |      |             | \$ 127,915                  | \$ 181,232                  |

Notes to IFRS Financial Statements:

The Company adopted IFRS as of January 1, 2011 with a transition date of January 1, 2009.

The Company has taken certain elections under IFRS 1 (International Financial Reporting Standard 1 – First-time Adoption of International Financial Reporting Standards Summary) to allow departure from retrospective application in certain areas. The areas that the Company has applied IFRS 1 to include:

non-controlling interests;

business combinations;

share-based payment transactions;

asset retirement obligations; and

borrowing costs.

1. In-Process inventory – Costs that qualify as betterment stripping are capitalized as Mining Properties under IFRS, but included within inventory and expensed for U.S. GAAP. As a result the amount of waste mining costs expensed and included within in-process metal inventory is higher under U.S. GAAP than under IFRS.
2. Deferred Stripping - Under IFRS, expenditures for stripping costs (*i.e.*, the costs of removing overburden and waste material to access mineral deposits) that can be shown to be a betterment of the mineral property are capitalized and subsequently amortized on a units-of-production basis over the mineral reserves that directly benefit from the specific waste stripping activity. U.S. GAAP has no provision for capitalization of betterment stripping costs. Thus in periods where betterment stripping occurs, operating costs are higher under U.S. GAAP since all waste costs are expensed. The amounts of capitalized betterment stripping are shown in the table immediately below and are included in the Mining Properties totals shown in the IFRS consolidated balance sheets.

Costs of Betterment Stripping Capitalized under IFRS

|   | Wassa/HBB | Bogoso/Prestea | TOTAL     |
|---|-----------|----------------|-----------|
| Balance as of December 31, 2010                 | \$ 12,935 | \$ 5,558       | \$ 18,493 |
| Additions in the six months ended June 30, 2011 |           | 1,461          | 1,461     |
| Amortization of betterment stripping assets     | (2,815)   |                | (2,815)   |
| Balance as of June 30, 2011                     | \$ 10,120 | \$ 7,019       | \$ 17,139 |

It is expected that Wassa's deferred betterment stripping costs will be amortized in 2011 and 2012. Bogoso's deferred betterment stripping costs are expected to be amortized between 2012 and 2015.

3. Forecasted amounts of required future environmental, reclamation and closure costs are the same under U.S. GAAP and IFRS. However, differences exist in determining the discount rate to be applied to the future costs. Under U.S. GAAP the estimated liability for future reclamation and closure costs of each period's new environmental disturbances are discounted at the prevailing discount

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rates in effect during the period of the new disturbance and once the discount rate is applied, it is not revised in subsequent periods. This in effect creates layers of liability for new disturbances incurred in each time period. Under IFRS, at the end of each period the entire pool of all estimated future cash costs for existing disturbances are discounted using the discount rate existing at the end of each period.

4. Under U.S. GAAP, mineral property acquisition costs are capitalized. Pre-acquisition costs and subsequent exploration, mine development and direct general and administrative costs are expensed as incurred until a feasibility study shows that the mineral property is economically viable. Following completion of a viable feasibility study all subsequent exploration, development and direct general and administrative costs are capitalized. For IFRS purposes, all exploration, mine development, acquisition and direct general and administrative costs related to exploration and development projects are capitalized into Deferred Exploration once sufficient work has been performed to demonstrate that an exploration asset exists. In each subsequent period, under IFRS, the exploration, engineering, development, financial and market information for each exploration project is reviewed by management to determine if such capitalized exploration and development costs are impaired. If found impaired, the exploration asset's cost basis is reduced in accordance with IFRS provisions. Amounts written off in the current year under IFRS, which have previously been expensed under U.S. GAAP, result in an adjustment when reconciling net income for the year.

Deferred Exploration IFRS - Consolidated capitalized expenditures on our exploration projects for the period ended June 30, 2011, were as follows:

|                                | Deferred<br>Exploration &<br>Development<br>Costs as of<br>12/31/2010 | Capitalized<br>Exploration<br>Expenditures | Transfer<br>to<br>Mining<br>Properties | Impairments | Other    | Deferred<br>Exploration &<br>Development<br>Costs as of<br>6/30/2011 |
|--------------------------------|---|--|--|-------------|----------|--|
| <b>AFRICAN PROJECTS</b>        |   |  |  |             |          |  |
| Ghana                          | \$ 8,048  | \$ 1,826                                   | \$                                     | \$ (166)    | \$       | \$ 9,708   |
| Sonfon - Sierra Leone          | 4,271   | 197  |  |             | (792)    | 3,676  |
| Other Africa                   | 1,018   |  |  |             |          | 1,017  |
| <b>SOUTH AMERICAN PROJECTS</b> |   |  |  |             |          |  |
| Saramacca - Suriname           | 1,151   |  |  |             |          | 1,151  |
| Paul Isnard French Guiana      |   |  |  |             |          |  |
| <b>Total</b>                   | \$ 14,488   | \$ 2,023                                   | \$                                     | \$ (166)    | \$ (792) | \$ 15,552  |

5. Income tax - The application of U.S. GAAP and IFRS tax accounting is the same for the company. The difference in the tax liability and expense arise from the changes in reported pre-tax income or loss under the different GAAPs as well as the differing treatment of various assets and liabilities.
6. Convertible debentures - Under U.S. GAAP convertible debt is measured at fair value at each reporting date with changes in fair value shown in the statement of operations. Fair value includes the value of the future stream of cash flows from the debt plus the fair value of the option component attached to the debenture. Fair value of the interest and principal is determined by discounting the cash flows at our external cost of funds. Fair value of the option component is determined using a Black-Scholes option pricing model. Under IFRS, the convertible debentures are separated into a liability and equity component. The fair value of the liability is determined at the origination of the debentures based on discounted cash flows of the future interest and principal, with the residual allocated to the equity portion. The amount of the liability is subsequently accreted through interest expense up to the full \$125 million face value over the life of the debentures.
7. Shareholders' Equity - Differences in Contributed Surplus reflect differences in stock option expense recognition. Under U.S. GAAP the expense for a grant is recognized evenly over the vesting period of the grant. Under IFRS we expense each tranche of a grant evenly over that tranches vesting period.
8. Noncontrolling interest - The application of non-controlling interest accounting is the same under U.S. GAAP and IFRS. The difference in the recognized equity account and related expense arise from the changes in reported income or loss under the different GAAPs.
9. Recently issued IFRS accounting standards
 

IAS 1 Presentation of Items of Other Comprehensive Income ( OCI ) - IAS 1 is intended to change the disclosure of items presented in Other Comprehensive Income ( OCI ), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. The new pronouncement is effective for years beginning on/after January 1, 2012. Certain provisions of this pronouncement will be effective for us beginning in 2012. It is expected that these provisions will not have a material impact on our consolidated financial statements.

IFRS 13 Fair Value Measurement and Disclosure Requirements - IFRS 13 provides a single source of guidance on how to measure fair value where it is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurement. Certain provisions of this pronouncement will be effective for us beginning in 2013. It is expected that these provisions will not have a material impact on our consolidated financial statements.



**IFRS 10 Consolidated Financial Statements** IFRS 10 replaces guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12 Consolidations – Special Purpose Entities. IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control. Certain provisions of this pronouncement will be effective for us beginning in 2013. It is expected that these provisions will not have a material impact on our consolidated financial statements.

**IFRS 11 Joint Arrangements** IFRS 11 replaces IAS-31 Interests in Joint Ventures. IFRS 11 reduces the types of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires the use of equity accounting for interests in joint ventures, eliminating the existing policy choice of proportionate consolidation for jointly controlled entities under IAS 31. Entities that participate in joint operations will follow accounting much like that for jointly controlled assets and jointly controlled operations under IAS 31. Certain provisions of this pronouncement will be effective for us beginning in 2013. It is expected that these provisions will not have a material impact on our consolidated financial statements.

**IFRS 12 Disclosure of Interest in Other Entities** IFRS 12 sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28 Investments in Associates. Certain provisions of this pronouncement will be effective for us beginning in 2013. It is expected that these provisions will not have a material impact on our consolidated financial statements.

**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, 2010, and with the accompanying unaudited consolidated financial statements and related notes for the period ended June 30, 2011. This Management's Discussion and Analysis of Financial Condition and Results of Operations include information available to August 5, 2011.

**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. Our principal office is located at 10901 West Toller Drive, Suite 300, Littleton, Colorado 80127, and our registered and records offices are located at 333 Bay Street, Bay Adelaide Centre, Box 20, Toronto, Ontario M5H 2T6.

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. GSBPL operates a gold ore processing facility at Bogoso/Prestea with a capacity of up to 3.5 million tonnes of ore per annum, which uses bio-oxidation technology to treat refractory sulfide ore ( Bogoso sulfide plant ). In addition, GSBPL has a carbon-in-leach ( CIL ) processing facility located next to the sulfide plant, which is suitable for treating oxide gold ores ( Bogoso oxide plant ) at a rate up to 1.5 million tonnes per annum. Bogoso/Prestea produced and sold 170,973 ounces of gold in 2010 and 186,054 ounces of gold in 2009.

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 km east of Bogoso/Prestea. The design capacity of the carbon-in-leach processing plant at Wassa ( Wassa processing plant ) is nominally 3.0 million tonnes per annum but varies depending on the ratio of hard to soft ore. GSWL also owns the Hwini-Butre and Benso concessions (the HBB properties ) in southwest Ghana. Ore from the HBB mines is sent to Wassa for processing. The Hwini-Butre and Benso concessions are located approximately 80 km and 50 km, respectively, by road south of Wassa. Wassa/HBB produced and sold 183,931 ounces of gold in 2010 and 223,848 ounces of gold in 2009.

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 in South America where we hold exploration properties in Brazil.

All our operations, with the exception of certain exploration projects, transact business in U.S. dollars and keep financial records in U.S. dollars. Our accounting records are kept in accordance with U.S. GAAP. Our fiscal year ends December 31. 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 statements of operations, includes all mine-site operating costs, including the costs of mining, ore processing, maintenance, work-in-process inventory changes, mine-site overhead as well as production taxes, royalties, mine site depreciation, depletion, amortization, asset retirement obligation accretion and by-product credits, but excludes exploration costs, property holding costs, corporate office general and administrative expenses, impairment charges, corporate business development costs, gains and losses on asset sales, foreign exchange gains and losses, interest expense, gains and losses on derivatives, gains and losses on investments and income tax expense/benefit.

Cash operating cost per ounce for a period is equal to Cost of sales for the period less mining related depreciation and amortization costs, royalties, accretion of asset retirement obligation costs, costs that meet the definition of Betterment Stripping and operations-related foreign currency gains and losses for the period, divided by the number of ounces of gold sold during the period. Total cash cost per ounce for a period is equal to Cash operating costs for the period plus 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 non-GAAP measures:

|   | Bogoso/Prestea             |                                   | Bogoso/Prestea |          |
|---|----------------------------|-----------------------------------|----------------|----------|
|   | For the three months ended |                                   |                |          |
|   | Wassa                      | Bogoso/Prestea                    |                | Combined |
|   |                            | <b>June 30, 2011</b>              |                |          |
| Mining operations costs                           | \$ 32,434                  | \$ 44,626                         | \$ 77,060      |          |
| Royalties   | 2,929                      | 2,352                             | 5,281          |          |
| Costs (to)/from metals inventory                  | (1,381)                    | 3,753                             | 2,372          |          |
| Mining related depreciation and amortization      | 8,484                      | 7,007                             | 15,491         |          |
| Accretion of asset retirement obligations         | 289                        | 2,033                             | 2,322          |          |
| <b>Cost of sales GAAP</b>                         | \$ 42,754                  | \$ 59,771                         | \$ 102,525     |          |
| Less royalties                                    | (2,929)                    | (2,352)                           | (5,281)        |          |
| Less betterment waste stripping costs             |                            | (1,456)                           | (1,456)        |          |
| Less operations-related foreign exchange losses   | 137                        | 191                               | 328            |          |
| Less mining related depreciation and amortization | (8,484)                    | (7,007)                           | (15,491)       |          |
| Less accretion of asset retirement obligations    | (289)                      | (2,033)                           | (2,322)        |          |
| <b>Cash operating cost</b>                        | \$ 31,190                  | \$ 47,114                         | \$ 78,304      |          |
| Plus royalties                                    | 2,929                      | 2,352                             | 5,281          |          |
| <b>Total cash costs</b>                           | \$ 34,119                  | \$ 49,466                         | \$ 83,585      |          |
| <b>Ounces sold</b>                                | 38,463                     | 34,077                            | 72,540         |          |
| <b>Cost per ounce measures:</b>                   |                            |                                   |                |          |
| Cash operating cost per ounce                     | \$ 811                     | \$ 1,383                          | \$ 1,079       |          |
| Total cash cost per ounce                         | \$ 887                     | \$ 1,452                          | \$ 1,152       |          |
|   |                            | <b>June 30, 2010</b>              |                |          |
|   |                            | <b>For the three months ended</b> |                |          |
|   |                            | <b>June 30, 2010</b>              |                |          |
|   |                            | <b>Wassa</b>                      |                |          |
|   |                            | <b>Bogoso/Prestea</b>             |                |          |
|   |                            | <b>Combined</b>                   |                |          |
| Mining operations costs                           | \$ 33,284                  | \$ 35,488                         | 68,772         |          |
| Royalties   | 2,874                      | 3,163                             | 6,037          |          |
| Costs (to)/from metals inventory                  | (626)                      | 1,772                             | 1,146          |          |
| Mining related depreciation and amortization      | 16,831                     | 10,467                            | 27,298         |          |
| Accretion of asset retirement obligations         | 238                        | 363                               | 601            |          |
| <b>Cost of sales GAAP</b>                         | \$ 52,601                  | \$ 51,253                         | 103,854        |          |
| Less royalties                                    | (2,874)                    | (3,163)                           | (6,037)        |          |
| Less betterment waste stripping costs             | (3,100)                    | (2,793)                           | (5,893)        |          |
| Less operations-related foreign exchange losses   | 21                         | 30                                | 51             |          |
| Less mining related depreciation and amortization | (16,831)                   | (10,467)                          | (27,298)       |          |
| Less accretion of asset retirement obligations    | (238)                      | (363)                             | (601)          |          |
| <b>Cash operating cost</b>                        | \$ 29,580                  | \$ 34,497                         | \$ 64,077      |          |
| Plus royalties                                    | 2,874                      | 3,163                             | 6,037          |          |
| <b>Total cash costs</b>                           | \$ 32,454                  | \$ 37,660                         | \$ 70,114      |          |
| <b>Ounces sold</b>                                | 47,648                     | 52,764                            | 100,412        |          |

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**Derivation of cost per ounce measures:**

|                               |    |     |    |     |    |     |
|-------------------------------|----|-----|----|-----|----|-----|
| Cash operating cost per ounce | \$ | 621 | \$ | 654 | \$ | 638 |
| Total cash cost per ounce     | \$ | 681 | \$ | 714 | \$ | 698 |

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|   | Bogoso/Prestea           | Bogoso/Prestea | Bogoso/Prestea |
|---|--------------------------|----------------|----------------|
|   | For the six months ended |                |                |
|   | June 30, 2011            |                |                |
|   | Wassa                    | Bogoso/Prestea | Combined       |
| Mining operations costs                                 | \$ 72,896                | \$ 89,143      | \$ 162,039     |
| Royalties   | 5,165                    | 3,626          | 8,791          |
| Costs (to)/from metals inventory                        | (1,520)                  | 1,202          | (318)          |
| Mining related depreciation and amortization            | 23,480                   | 13,030         | 36,510         |
| Accretion of asset retirement obligations               | 577                      | 2,678          | 3,255          |
| <b>Cost of sales GAAP</b>                               | \$ 100,597               | \$ 109,679     | \$ 210,276     |
| Less royalties  | (5,165)                  | (3,626)        | (8,791)        |
| Less capitalizable waste betterment stripping costs     |                          | (1,456)        | (1,456)        |
| Less operations-related foreign exchange losses         | 172                      | 127            | 299            |
| Less mining related depreciation and amortization       | (23,480)                 | (13,030)       | (36,510)       |
| Less accretion of asset retirement obligations          | (577)                    | (2,678)        | (3,255)        |
| <b>Cash operating cost</b>                              | \$ 71,548                | \$ 89,016      | \$ 160,564     |
| Plus royalties  | 5,165                    | 3,626          | 8,791          |
| <b>Total cash costs</b>                                 | \$ 76,713                | \$ 92,642      | \$ 169,355     |
| <b>Ounces sold</b>                                      | 91,795                   | 64,653         | 156,448        |
| <b>Cost per ounce measures:</b>                         |                          |                |                |
| Cash operating cost per ounce                           | \$ 779                   | \$ 1,377       | \$ 1,026       |
| Total cash cost per ounce                               | \$ 836                   | \$ 1,433       | \$ 1,082       |
|   | For the six months ended |                |                |
|   | June 30, 2010            |                |                |
|   | Wassa                    | Bogoso/Prestea | Combined       |
| Mining operations costs                                 | \$ 60,947                | \$ 68,738      | 129,685        |
| Royalties   | 4,669                    | 4,972          | 9,641          |
| Costs (to)/from metals inventory                        | (691)                    | 926            | 235            |
| Mining related depreciation and amortization            | 32,701                   | 20,030         | 52,731         |
| Accretion of asset retirement obligations               | 474                      | 727            | 1,201          |
| <b>Cost of sales GAAP</b>                               | \$ 98,100                | \$ 95,393      | 193,493        |
| Less royalties  | (4,669)                  | (4,972)        | (9,641)        |
| Less betterment waste stripping costs                   | (6,026)                  | (2,793)        | (8,818)        |
| Less operations-related foreign exchange (gains)/losses | 101                      | (258)          | (157)          |
| Less mining related depreciation and amortization       | (32,701)                 | (20,030)       | (52,731)       |
| Less accretion of asset retirement obligations          | (474)                    | (727)          | (1,201)        |
| <b>Cash operating cost</b>                              | \$ 54,331                | \$ 66,613      | \$ 120,944     |
| Plus royalties  | 4,669                    | 4,972          | 9,641          |
| <b>Total cash costs</b>                                 | \$ 59,000                | \$ 71,585      | \$ 130,585     |
| <b>Ounces sold</b>                                      | 94,677                   | 98,673         | 193,350        |
| <b>Derivation of cost per ounce measures:</b>           |                          |                |                |
| Cash operating cost per ounce                           | \$ 574                   | \$ 675         | \$ 626         |
| Total cash cost per ounce                               | \$ 623                   | \$ 725         | \$ 675         |



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 periods' values to detect trends that may indicate increases or decreases in operating efficiencies. These measures are also compared against budget to alert management about 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, ore 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 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 also pursue exploration activities in South America and other countries in West Africa.

We acquired the Bogoso property and began operating its mines and CIL processing facility in 1999. In 2001, we acquired the Prestea property located adjacent to the Bogoso property. In late 2002, we acquired Wassa, and constructed the Wassa processing plant, which began commercial operation in April 2005. In July 2007, we completed construction and development of the Bogoso sulfide plant. In late 2005, we acquired the HBB properties consisting of the Benso and Hwini-Butre properties. Benso began sending ore to the Wassa processing plant in 2008. And in 2009, following its development phase, Hwini-Butre began sending ore to the Wassa processing plant.

Our overall objective is to continue the growth of our mining 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 \$20 million on such activities during 2010. We are conducting regional reconnaissance projects in Ghana, Cote d'Ivoire and Brazil, and have drilled more advanced targets in Ghana, Niger, Sierra Leone and Burkina Faso. See Item 2 "Description of Properties" of our Form 10-K dated December 31, 2010 for additional details on our assets.

### **TRENDS AND EVENTS IN THE THREE MONTHS ENDED JUNE 30, 2011**

#### **GOLD PRICES**

Gold prices have generally trended upward during the last ten years from a low of \$260 per ounce in 2001 to a high of \$1,669 per ounce in August 2011. Realized gold prices for our shipments averaged \$1,513 per ounce during the second quarter of 2011, up from \$1,198 per ounce during the second quarter of 2010.

#### **ROYALTIES**

Our minerals royalty rate rose to 5% of gold revenues effective March 31, 2011 in compliance with a change announced by the Government of Ghana. We previously paid a royalty of 3% of gold revenues.

#### **ADOPTION OF U.S. GAAP IN 2011**

Golden Star has, since its inception, reported to security regulators in both Canada and the U.S. using Canadian GAAP financial statements with a footnote reconciliation to U.S. GAAP. However, a change in SEC position in late 2009 required that Canadian companies such as Golden Star, which do not qualify as foreign private issuers, must file their financial statements in the U.S. using U.S. GAAP after 2010.

In response we adopted U.S. GAAP as of January 1, 2011 for all subsequent reporting in the U.S., Canada, and Ghana. All financial reporting after January 1, 2011 will also present, in a footnote to our U.S. GAAP financial statements, a reconciliation to international financial reporting standards (IFRS). This will be done to facilitate comparison of our financial results to those of other mining companies reporting in IFRS.



**PURCHASE OF RESIDUAL INTEREST IN PRESTEA UNDERGROUND**

During the first quarter of 2011, we paid \$2.4 million to a former joint venture partner to purchase their remaining minority interest in the Prestea Underground mine.

**STABILIZATION LEVY EXTENSION**

The Ghanaian government announced that its stabilization levy, originally scheduled to expire at the end of 2010, has been extended through the end of 2011. The levy requires certain Ghanaian companies, including all mining companies, to pay a levy equal to 5% of profits before tax as disclosed on their statements of operations.

**INCREASES IN OPERATING COSTS**

The price of several of our operational inputs have increased by material amounts during the past year. Most notably the costs of labor, fuel, electric power, and cyanide have shown significant increases. These increases are contributing to higher cash costs as compared to prior periods.

**CONSOLIDATED RESULTS OF OPERATIONS**

|  | For the three months ended |         | For the six months |          |
|--|----------------------------|---------|--------------------|----------|
|  | June 30                    |         | ended              |          |
|  | 2011                       | 2010    | 2011               | 2010     |
| <b>SUMMARY OF FINANCIAL RESULTS</b>  |                            |         |                    |          |
| Gold sales (oz)  | 72,540                     | 100,412 | 156,448            | 193,350  |
| Average realized price (\$/oz)   | 1,513                      | 1,198   | 1,447              | 1,156    |
| Gold revenues (\$ in thousands)  | 109,807                    | 120,307 | 226,313            | 223,571  |
| Cash flow provided by/(used in) operations (\$ in thousands)                 | (1,450)                    | 27,387  | (7,315)            | 48,863   |
| Net income/(loss) attributable to Golden Star shareholders (\$ in thousands) | (5,048)                    | (5,618) | 880                | (14,868) |
| Basic income/(loss) per share attributable to Golden Star Shareholders (\$)  | (0.020)                    | (0.022) | 0.003              | (0.058)  |

**THREE MONTHS ENDED JUNE 30, 2011 COMPARED TO THREE MONTHS ENDED JUNE 30, 2010**

Results for the three months ended June 30, 2011 include a net loss attributable to Golden Star shareholders ( net loss ) of \$5.0 million or \$0.020 per share, compared with a net loss of \$5.6 million or \$0.022 per share in the same period of 2010. Second quarter 2011 gold sales totaled 72,540 ounces, down from 100,412 ounces sold in the same quarter of 2010. The average realized gold price increased to \$1,513 per ounce, up 26% from \$1,198 in the second quarter of 2010. While our second quarter realized gold price was higher than a year earlier, the drop in ounces resulted in sales revenues of \$109.8 million for the second quarter of 2011, down from \$120.3 million in the same period in 2010.

While the second quarter 2011 net loss was less than in the same period of 2010, mine operating margins were lower as both Bogoso and Wassa sold less ounces than in the same period of 2010 and both mines saw significant increases in cash operating costs as compared to the second quarter of 2010, which contributed to lower operating margins.

A decrease in the fair value of our convertible debentures yielded a \$6.1 million non-cash gain in the second quarter of 2011. This was the major factor responsible for the lower loss as compared to the second quarter of 2010. The gain was related to a decrease in the fair value of the debenture liability caused by a decrease in the fair value of the debenture's conversion feature as Golden Star's share prices dropped during the second quarter. The debenture gain was partially offset by a loss on gold price derivatives. A \$2.1 million loss was recognized on a fair value adjustment of the gold price derivatives outstanding at June 30, 2011. This compares to a \$1.1 million loss in the same period of 2010. The losses were caused by increases in spot gold prices during the second quarters of 2011 and 2010.

While second quarter 2011 consolidated cash operating costs of \$78.3 million were down from \$82.3 million in the first quarter of 2011, they were up from \$64.1 million in the second quarter of 2010. The increase in cash operating costs since early 2010 reflects increasing prices of many of our key operating inputs. These increases include the price of electric power, labor, cyanide, fuel and other reagents used in processing plants. Electric power rates during the second quarter of 2011 are approximately double those of a year ago, and fuel prices are up approximately 34 percent from the second quarter of 2010. See operational discussions below for additional operational details.

Depreciation charges for the second quarter of 2011 were down \$11.8 million from the same period in 2010 due to lower ounces sold at Bogoso and at Wassa, and also due to the decrease in depreciation and amortization expense per ounce from the increase in gold reserves at the end of



2010.

General and administrative costs totaled \$7.3 million for the second quarter of 2011, up from \$4.1 million in the second quarter 2010. Most of the increase in general and administrative costs was higher consulting fees. Interest expense totaled \$2.1 million in the second quarter of 2011, essentially unchanged from \$2.2 million in the same period of 2010.

**SIX MONTHS ENDED JUNE 30, 2011 COMPARED TO SIX MONTHS ENDED JUNE 30, 2010**

Results for the six months ended June 30, 2011 include net income attributable to Golden Star shareholders ( net income ) of \$0.9 million or \$0.003 per share, compared with a net loss of \$14.9 million or \$.058 per share in the same period of 2010. Gold sales totaled 156,448 ounces in the first six months of 2011, down from 193,350 ounces in the same period of 2010. The average realized gold price increased to \$1,447 per ounce, up 25% from \$1,156 in the first six months of 2010. The gold price increase in the first six months of 2011 more than offset the revenue impact of lower ounces sold, resulting in a \$2.7 million increase in sales revenues as compared to 2010.

While net income of \$0.9 million for the first six months of 2011 was higher than in the same period of 2010, mine operating margins were lower. At both Wassa and Bogoso ounces of gold sold were lower and both mines saw increases in cash operating costs as compared to the first half of 2010, which contributed to lower operating margins.

A \$24.3 million non-cash gain on fair value of debentures was the major factor responsible for the earnings improvement as compared to the first half of 2010. The gain was related to a decrease in the fair value of the debenture liability caused by a decrease in the fair value of the debenture's conversion feature as Golden Star's share prices dropped during the second half. A \$6.6 million loss was recognized on a fair value adjustment of the gold hedges outstanding at June 30, 2011. In comparison, gold hedge losses totaled \$1.1 million in the first half of 2010. The loss was caused by increases in spot gold prices during the first half of both periods.

Consolidated cash operating costs totaled \$160.6 million in the first half of 2011, up from \$120.9 million in the first half of 2010. The increase in cash operating costs reflects increasing prices of many of our key operating inputs. These increases include the price of electric power, labor, cyanide, fuel and other reagents used in processing plants. Electric power rates during the first half of 2011 are approximately double those of a year ago, and fuel prices are up approximately 34 percent from a year earlier. See operational discussions below for additional operational details.

Depreciation charges for the quarter were down \$16.2 million from the same period in 2010 due to lower ounces sold at Bogoso and Wassa, and also due to the decrease in depreciation and amortization expense per ounce at both mines from the increase in gold reserves at the end of 2010.

General and administrative costs totaled \$14.4 million for the first six months of 2011, up from \$9.1 million in the same period in 2010. Most of the increase in general and administrative costs was higher consulting fees. Interest expense totaled \$4.5 million in the first half of 2011, the same as in the first half of 2010.

**BOGOSO/PRESTEA OPERATIONS**

|   | For the three months ended |            | For the six months ended |            |
|---|----------------------------|------------|--------------------------|------------|
|   | June 30                    |            | June 30                  |            |
|   | 2011                       | 2010       | 2011                     | 2010       |
| <b>BOGOSO/PRESTEA OPERATING RESULTS</b> |                            |            |                          |            |
| Ore mined refractory (t)                | 607,814                    | 655,647    | 1,302,571                | 1,452,600  |
| Ore mined non-refractory                | 6,887                      | 9,145      | 7,074                    | 9,145      |
| Total ore mined (t)                     | 614,701                    | 664,792    | 1,309,645                | 1,461,745  |
| Waste mined (t)                         | 5,392,767                  | 3,983,169  | 9,481,987                | 7,947,817  |
| Refractory ore processed (t)            | 604,088                    | 711,804    | 1,325,316                | 1,392,714  |
| Refractory ore grade (g/t)              | 2.31                       | 3.17       | 2.40                     | 3.08       |
| Gold recovery refractory ore (%)        | 66.0                       | 69.4       | 63.2                     | 70.6       |
| Non-refractory ore processed (t)        |                            |            |                          |            |
| Non-refractory ore grade (g/t)          |                            |            |                          |            |
| Gold recovery - non-refractory ore (%)  |                            |            |                          |            |
| Gold sales (oz)                         | 34,077                     | 52,764     | 64,653                   | 98,673     |
| <b>Total cash cost (\$/oz)</b>          | <b>1,452</b>               | <b>714</b> | <b>1,433</b>             | <b>725</b> |
| Royalties (\$/oz)                       | 69                         | 60         | 56                       | 50         |
| <b>Cash operating cost (\$/oz)</b>      | <b>1,383</b>               | <b>654</b> | <b>1,377</b>             | <b>675</b> |

**THREE MONTHS ENDED JUNE 30, 2011 COMPARED TO THREE MONTHS ENDED JUNE 30, 2010**

Bogoso/Prestea's second quarter 2011 revenues totaled \$51.6 million, down \$11.6 million from \$63.3 million in the second quarter of 2010. The decrease was the result of a drop in the number of ounces sold, but this was partially offset by higher gold prices. Second quarter realized average gold price rose to \$1,514 per ounce, up from \$1,199 per ounce a year earlier. Bogoso's sales decreased to 34,077 ounces in the second quarter of 2011, down from the 52,764 ounces in the second quarter of 2010. While ounces sold were down from a year earlier, second quarter ounces sold were up from 30,576 ounces in the first quarter of 2011 and 28,021 ounces in the fourth quarter of 2010. Decreases in tonnes processed, plant feed grade and gold recovery, as compared to the same quarter of 2010, contributed to the drop in ounces sold.

The decrease in grade and recovery reflects a change in ore source. In the second quarter of 2010, Bogoso's main feed source was fresh ore from deep in the Buesichem pit, but mining was completed at the Buesichem pit in the third quarter of 2010 and subsequently Bogoso moved its mining fleet to other pits at Bogoso where ore grades have been lower than at Buesichem. Furthermore, start-up of mining at the new pits requires mining through the partially oxidized caps found at shallow depths over the new ore bodies, which typically yield lower gold recoveries than found in fresher, deeper ore.

Geologic drill data indicates that fresher ore is expected at deeper levels in the Bogoso pits and during 2011, as mining progresses deeper into the current pits, an improvement in gold recovery rates is expected. While second quarter 2011 gold recovery was still lower than in the second quarter of 2010, the 66.0 percent recovery achieved in the second quarter of 2011 was up from 61.0 percent in the first quarter of 2011 and up from 56.2 percent in the fourth quarter of 2010, increasing in line with our expectations of better recoveries at deeper mining horizons. As in the second quarter of 2010, there was no oxide ore processed at the Bogoso oxide plant in the second quarter of 2011.

Bogoso's second quarter 2011 cash operating costs of \$47.1 million were up from \$34.5 million in the second quarter of 2010. Increases in the price of electric power, fuel, cyanide and labor since the second quarter of 2010 were contributors to the increase. In addition Bogoso moved 35% more waste rock in the second quarter of 2011 than it did a year earlier which caused higher equipment rental costs, additional equipment maintenance costs and additional equipment operating costs. The inventory of blasted rock in the pits was also increased to allow flexibility for better ore blending which in turn has contributed to the improvements in gold recovery, as stated above.

A decrease in ounces sold, combined with higher cash operating costs, resulted in cash operating costs per ounce of \$1,383 up from \$654 in the second quarter of 2010. Bogoso's royalty costs were lower than a year earlier because fewer ounces were sold. The drop in ounces sold also contributed to lower units-of-production amortization expense, as did an increase in gold reserves at the end of 2010.

Management is working to improve mining efficiencies at Bogoso to achieve reductions in unit costs. Such efforts have included employment of a team of mining efficiency consultants, re-evaluation of pit sequencing and evaluation of mine planning practices and execution. The Bogoso mining management team has also been reorganized and a new general manager was appointed during the second quarter.



Efforts are also underway to restart mining ore at the Pampe oxide property near Bogoso. It is expected that Pampe oxide ores will be less expensive to process than the Bogoso sulfide ores and are expected to yield better gold recovery rates. In early August, a mining contractor was mobilized to Pampe who will strip waste rock and stockpile oxide ore during the balance of 2011. The Bogoso oxide plant is scheduled to begin processing Pampe oxide ore by early 2012.

We are also seeking permits to move forward with the Bogoso tailings recovery projects which will provide additional oxide ore to Bogoso. Lower processing costs and improved recovery from the Bogoso oxide operations are expected to contribute to lower average cash operating costs per ounce at Bogoso. We also plan to resume mining at the Buesichem pit south of Bogoso in the second half of 2011 with a new cut back at the north end of the Buesichem pit. This pit will furnish refractory ore to the Bogoso sulfide plant.

In March 2011, GSBPL provided \$12 million of reclamation bonding to the Ghana Environmental Protection Agency ( EPA ) to cover backfilling of the Plant North pit at Prestea which we mined from 2003 to 2006. The bonding requirements were met by \$1.2 million cash deposit and a \$10.8 million letter of credit from a commercial bank. We expect that the backfilling will be completed in the third quarter of 2011 and that the EPA will release the bonding requirement and cash collateral prior to the end of 2011. During the second quarter of 2011, the bonding requirement was reduced to \$8.1 million.

#### **SIX MONTHS ENDED JUNE 30, 2011 COMPARED TO SIX MONTHS ENDED JUNE 30, 2010**

Bogoso/Prestea's revenues totaled \$94.1 million in the first half of 2011, down from \$114.2 million in the same period of 2010. The decrease was a result of a drop in the number of ounces sold, but this was partially offset by higher gold prices. Bogoso's realized gold price averaged \$1,455 per ounce in the first half of 2011, up from \$1,158 per ounce a year earlier. Bogoso's sales decreased to 64,653 ounces in the first six months of 2011, down from the 98,673 ounces in the first six months of 2010. Decreases in tonnes processed, plant feed grade and gold recovery contributed to the drop in ounces sold.

The decrease in grade and recovery reflects a change in ore source. In the first half of 2010, Bogoso's main feed source was fresh ore from deep in the Buesichem pit, but mining was completed at the Buesichem pit in the third quarter of 2010 and subsequently Bogoso moved its mining fleet to other pits at Bogoso where ore grades have been lower than at Buesichem. Furthermore, start-up of mining at the current pits requires mining through the partially oxidized caps found at shallow depths over the new ore bodies, which typically yield lower gold recoveries than found in fresher, deeper ore.

Geologic drill data indicates that fresher ore is expected at deeper levels in the new Bogoso pits and during 2011, as mining progresses deeper into the new pits, improvement in gold recovery rates is expected. As in the first half of 2010, there was no oxide ore processed at the Bogoso oxide plant in the first quarter of 2011. As explained in the second quarter discussion above, gold recovery and gold sold have trended up in recent quarters.

Bogoso's cash operating costs totaled \$89.0 million in the first six months of 2011, up from \$66.6 million in the first six months of 2010. Increases in the price of electric power, fuel, cyanide and labor since early 2010 were major factors in the increase. Bogoso also saw higher maintenance costs than a year earlier.

A decrease in ounces sold and higher cash operating costs resulted in a \$1,377 per ounce cash operating cost in the first half of 2011, up from \$675 in the same period of 2010. Bogoso's royalty costs were lower than a year earlier because gold revenues were lower on fewer ounces sold. The drop in ounces sold also contributed to lower units-of-production amortization expense, as did an increase in gold reserves at the end of 2010.

**WASSA OPERATIONS**

|  | For the three months ended<br>June 30 |            | For the six months ended<br>June 30 |            |
|--|---------------------------------------|------------|-------------------------------------|------------|
|  | 2011                                  | 2010       | 2011                                | 2010       |
| <b>WASSA/HBB OPERATING RESULTS</b>         |                                       |            |                                     |            |
| Ore mined (t)                              | 576,246                               | 654,855    | 1,279,302                           | 1,230,758  |
| Waste mined (t)                            | 3,491,281                             | 4,672,043  | 7,606,272                           | 9,872,915  |
| Ore and heap leach materials processed (t) | 665,466                               | 618,624    | 1,389,236                           | 1,249,378  |
| Grade processed (g/t)                      | 1.93                                  | 2.54       | 2.14                                | 2.47       |
| Recovery (%)                               | 94.1                                  | 95.1       | 94.7                                | 95.1       |
| Gold sales (oz)                            | 38,463                                | 47,648     | 91,795                              | 94,677     |
| <b>Total cash cost (\$/oz)</b>             | 887                                   | <b>681</b> | 836                                 | <b>623</b> |
| Royalties (\$/oz)                          | 76                                    | 60         | 57                                  | 49         |
| <b>Cash operating cost (\$/oz)</b>         | <b>811</b>                            | <b>621</b> | <b>779</b>                          | <b>574</b> |

**THREE MONTHS ENDED JUNE 30, 2011 COMPARED TO THREE MONTHS ENDED JUNE 30, 2010**

Wassa sold 38,463 ounces in the second quarter of 2011, down from 47,648 ounces in the second quarter of 2010. The impact of fewer ounces sold was offset by higher average gold prices and second quarter revenues totaled \$58.2 million, up from \$57.1 million in the same quarter of 2010. Wassa's second quarter 2011 realized gold price averaged \$1,513 per ounce, up from \$1,197 per ounce a year earlier.

Wassa processed 46,842 more tonnes of ore during the second quarter of 2011 than it did in the same period of 2010 when the processing plant lost several days of production due to an unscheduled maintenance project. While second quarter plant through put was higher than in the same period of 2010, plant feed grades dropped to 1.93g/t, down from 2.54g/t in the second quarter of 2010, which offset the impact of higher processing rate and yielded fewer ounces sold. Ore grades fell as mining proceeded into lower grade areas of the Wassa and Benso ore bodies.

Cash operating costs totaled \$31.2 million in the second quarter of 2011, up from \$29.6 million in the second quarter of 2010. Increases in the price of electric power, fuel, cyanide, labor and maintenance contributed to higher operating costs. While ounces sold were lower than in the second quarter of 2010, higher cash operating costs resulted in a cash operating cost per ounce of \$811, as compared to \$621 per ounce in the same quarter of 2010. As at Bogoso, Wassa is also re-evaluating its mining and ore processing programs to identify and achieve cost reductions and efficiency improvements.

**SIX MONTHS ENDED JUNE 30, 2011 COMPARED TO SIX MONTHS ENDED JUNE 30, 2010**

Wassa sold 91,795 ounces in the first six months of 2011, down from 94,677 ounces in the first six months of 2010. While plant through put was higher than in the first half of 2010, plant feed grades dropped to 2.14g/t, down from 2.47g/t in the first half of 2010, offsetting the improvement in processing rates. Ore grades fell as mining proceeded into lower grade areas of the Wassa and HBB ore bodies during the first half of 2011. Higher gold realized prices offset the fewer ounces sold to yield revenues of \$132.2 million, up from \$109.4 million in the first half of 2010. Wassa's realized gold price averaged \$1,440 per ounce in the first six months of 2011, up from \$1,155 per ounce a year earlier.

Cash operating costs totaled \$71.5 million in the first six months of 2011, up from \$54.3 million in the first six months of 2010. Increases in the price of electric power, fuel, cyanide, labor and maintenance contributed to higher operating costs. The drop in ounces sold as compared to first six months of 2010, coupled with higher cash operating costs, resulted in an increase in cash operating cost per ounce to \$779, as compared to \$574 per ounce in the same period of 2010.

## **DEVELOPMENT PROJECTS**

### **PAMPE AND THE BOGOSO OXIDE PLANT REFURBISHMENT**

Efforts are underway to restart mining ore at the Pampe oxide property near Bogoso. It is expected that Pampe oxide ores will be less expensive to process than the Bogoso sulfide ores and should yield better gold recovery rates. In August, a mining contractor was mobilized to Pampe who will strip waste rock and stockpile oxide ore during the balance of 2011. The Bogoso oxide plant is scheduled to begin processing Pampe oxide ore by early 2012. Pampe is located 19 kilometers west of the Bogoso processing plant site. In conjunction, the Bogoso oxide plant will undergo a refurbishment during the balance of 2011 to prepare it for the Pampe ore and recovered tailings.

### **BOGOSO TAILINGS RECOVERY PROJECT**

In 2010, \$8 million was approved for construction of a hydraulic tailings recovery system and associated piping that will feed tailings from a decommissioned Bogoso tailings storage facility directly to the Bogoso oxide plant's CIL circuit. The project is expected to come online in early 2012, subject to permitting. A draft EIS was submitted to the EPA in the first quarter of 2011 and we are waiting for the EPA's comments before finalizing the EIS.

Permits are also being sought to recover tails from the Marlu area, which is approximately 8 km north of the Bogoso oxide plant and close to the Bogoso North pit that is currently being mined.

While the grade of the tailings material is lower than the ores typically treated in the Bogoso oxide plant, the operating costs are expected to be low since reclaimed tailings have a low mining cost and can be fed directly into the existing CIL circuit thereby resulting in lower overall processing costs. It is expected that this material will be a supplemental feed blended with oxide ores mined from Pampe and Prestea South once these mines are brought on line.

### **PRESTEA SOUTH PROPERTIES**

We received mining permits for Prestea South in 2008 and continue to pursue required environmental permits. We expect to initiate development at Prestea South, including its 10 kilometer haul road extension, once the environmental permits are received. The Prestea South oxide ore will be transported to Bogoso and processed through the Bogoso oxide plant. The Prestea South sulfide ore will be processed through the Bogoso sulfide plant. The Ghana EPA requested an update to the Prestea South Project Environmental Impact Statement (EIS) and a draft EIS was submitted to the EPA in April 2011.

## **EXPLORATION**

While much of our 2011 exploration activity has focused around our existing mines, we also plan to execute active exploration programs in Brazil, Sierra Leone and Cote d'Ivoire. We are planning to spend approximately \$20 million on all exploration efforts in 2011 with approximately 48% of the budgeted amount scheduled for Bogoso/Prestea projects and 40% for Wassah/BBB projects. Due to a shortage of contract drill rigs in West Africa, our exploration plans have been scaled back in certain areas.

During the second quarter we employed seven drill rigs in and around our active mine sites at Bogoso, Wassah, Benso and Hwini-Butre. At Bogoso, drilling continued to define the mineralized zones at our recent Buesichem South discovery and additional drilling was done at Beposo and Bogoso North. At Wassah, Hwini Butre and Benso we completed initial drilling of targets along the main haul road to the Wassah processing plant and results from this program have justified further drilling later in 2011 once the seasonal rains end.

Three drill rigs have been employed at Wassah testing high grade zones at depth below the Wassah area pits as well as testing mineralization along strike to the south of the current reserves where the mineralized zones remain open. During the second quarter, we also mobilized our core drilling rig to Hwini Butre where drilling evaluated the underground potential below the Father Brown and Adoikrom deposit.

With recent improvement in the Cote d'Ivoire's political situation, we plan to begin drilling there in the second half of 2011 on some of the soil anomalies that were identified by surface sampling programs in recent years.

Additional drilling is also planned at the Sonfon project in Sierra Leone in the second half of 2011. Exploration crews are currently preparing drill pads in anticipation of the planned drilling programs.





Our field activities in Brazil were accelerated during the second quarter. We mobilized sampling crews to continue with the regional stream sediment sampling and soil sampling. The number of field crews will be increased in the third quarter to allow completion of stream sediment sampling over the entire 3400 square kilometer Iriri Joint Venture block.

### **LIQUIDITY AND CAPITAL RESOURCES**

During the first six months of 2011, our cash and cash equivalents decreased by \$50.1 million, to \$127.9 million at June 30, 2011. Of the \$50.1 million decrease, \$41.1 million was used in investing activities, including \$7.5 million on mining property development projects, \$2.4 million to purchase a residual minority interest in the Prestea Underground, \$19.9 million for the acquisition of new equipment and facilities at the mine sites, \$8.1 million on drilling and exploration at the mine sites and \$3.2 million on other items.

Operations provided \$17.4 million of cash flow before working capital changes during the first six months 2011. Lower gold sales at Bogoso and at Wassa and increases in the price of operational inputs at both mines contributed to the reduction as compared to the same period in 2010. Of the \$24.7 million used in working capital, approximately half was related to a retroactive increase in electric power in December 2010, which was subsequently paid in January 2011.

In addition, \$11.8 million of cash was used during the first half of 2011 on reclamation projects. Most of the 2011 spending has been, and will continue to be related to backfilling the old Plant North pit at Prestea which was mined between 2003 and 2006.

Debt and capital lease payments used \$5.3 million during the first six months of 2011 and \$3.5 million was drawn on our equipment financing facility. Payments on our equipment financing facility reduced the outstanding balance to \$15.1 million at June 30, 2011, with available credit of \$24.9 million. During the first six months of 2011, all of our cash was held as cash or was invested in funds that held only U.S. treasury notes and bonds.

### **LIQUIDITY OUTLOOK**

We expect that project development costs, equipment purchases and capital investments will continue to use cash during the remainder of 2011 in amounts that exceed 2010 levels. As shown in the two following tables, we expect to spend approximately \$111 million for capital projects at Bogoso/Prestea and Wassa/HBB during 2011:

| Bogoso/Prestea Capital Expenditures | 2011<br>(millions) |
|-------------------------------------|--------------------|
| Mine development                    | \$ 18              |
| Mining equipment                    | 8                  |
| Mine site exploration               | 8                  |
| Water treatment plant               | 10                 |
| Tailings reclamation project        | 5                  |
| Oxide plant upgrades                | 4                  |
| Tailings dam                        | 4                  |
| Sulfide plant                       | 9                  |
| Other items                         | 5                  |
| Total                               | \$ 71              |

| Wassa/HBB Capital Expenditures | 2011<br>(millions) |
|--------------------------------|--------------------|
| Tailings dam                   | \$ 7               |
| Mining equipment               | 11                 |
| Mine site exploration          | 9                  |
| Mine development               | 6                  |
| Processing plant               | 3                  |
| Other                          | 4                  |
| Total                          | \$ 40              |



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In addition, we expect to spend approximately \$23.8 million on reclamation projects at Bogoso/Prestea and Wassa/HBB during 2011, most of which is related to the back filling and rehabilitation of the old Plant North pit and associated dumps at Prestea. In 2012, Bogoso/Prestea expects to spend approximately \$68 million on capital projects and equipment, Wassa expects to spend approximately \$18 million on capital projects, and \$7 million is scheduled for reclamation projects in Ghana.

We maintain a \$40.5 million revolving line of credit and also have an additional \$24.9 million of borrowing capacity under our equipment financing credit facility. During the remainder of 2011, we expect to pay \$4.4 million of principal and interest on our equipment financing facility, \$2.5 million of interest payments on the convertible debentures which mature on November 30, 2012, and \$1.3 million in interest and principal of our capital leases.

We expect that our operating cash flow in 2011, along with cash on hand, the revolving credit facility and equipment financing facility, will be sufficient to cover capital and operating needs during 2011.

Scheduled payments on outstanding debt as of June 30, 2011:

| Liabilities                      | Six Months      |                   |                 |                 |               | Maturity     |
|----------------------------------|-----------------|-------------------|-----------------|-----------------|---------------|--------------|
|                                  | 2011            | 2012              | 2013            | 2014            | 2015          |              |
| <b>Equipment financing loans</b> |                 |                   |                 |                 |               |              |
| principal                        | \$ 3,840        | \$ 5,733          | \$ 3,865        | \$ 1,230        | \$ 499        | 2010 to 2014 |
| interest                         | 516             | 651               | 292             | 87              | 12            |              |
| <b>Capital leases</b>            |                 |                   |                 |                 |               |              |
| principal                        | 1,306           | 224               |                 |                 |               | Feb 28, 2012 |
| interest                         | 46              | 2                 |                 |                 |               |              |
| <b>Revolving credit facility</b> |                 |                   |                 |                 |               |              |
| principal                        |                 |                   |                 |                 |               | Sep 30, 2012 |
| interest                         |                 |                   |                 |                 |               |              |
| <b>Convertible debentures</b>    |                 |                   |                 |                 |               |              |
| principal                        |                 | 125,000           |                 |                 |               | Nov 30, 2012 |
| interest                         | 2,500           | 5,000             |                 |                 |               |              |
| <b>Total</b>                     | <b>\$ 8,208</b> | <b>\$ 136,610</b> | <b>\$ 4,157</b> | <b>\$ 1,317</b> | <b>\$ 511</b> |              |

### LOOKING AHEAD

Bogoso/Prestea mine focused its efforts in the second quarter of 2011 on returning the Chujah pit to design by mining 32% more waste than in the first quarter. This resulted in a temporary increase in the stripping ratio to 10.5:1 versus design of 8:1, lower ore mining rate and processing throughput, and a commensurate increase in cash operating costs. We expect to mine extra waste through the end of 2011 with the stripping ratio dropping to design for the whole of 2012.

While the processed ore grade was down 6% in the second quarter of 2011, quarter on quarter, this was offset by the higher metallurgical recovery attained in the sulfide plant. This was a direct consequence of processing an appropriate blend of fresh and transition ores rather than milling a higher proportion of transition material. Recovery rates are improving from previous quarters with sulfide recovery rates of 56.2% for the fourth quarter of 2010, to 61.0% for the first quarter of 2011 to 66.0% for the second quarter of 2011. As the pits are returned to design over the next two quarters, we expect to be able to feed a more optimal blend of ore at a higher and more consistent rate and it is expected that this will result in higher recovery and gold production.

Our main objectives for the remainder of 2011 are:

Permitting and development of the Bogoso tailings treatment projects;

Continue to optimize and stabilize ore feed at Bogoso to improve throughput, metallurgical recoveries and resultant gold production;

Continue reserve and resource definition drilling at Bogoso/Prestea and Wassah/HBB;

Reopening the Pampe pit to provide oxide ore to the Bogoso oxide processing plant;

Finalization of the permitting and development of the Prestea South project;

Advance the development of the Prestea Underground Project; and

Working toward cost reductions at Wassa/HBB.

The following guidance reflects current expectations of performance at the Bogoso and Wassa mines for 2011 and 2012.

|                                       | First<br>Half 2011<br>Actual | Q3 2011  | Q4 2011  | 2011 Total | 2012 Total |
|---------------------------------------|------------------------------|----------|----------|------------|------------|
| <b>Bogoso</b>                         |                              |          |          |            |            |
| Ounces                                | 64,653                       | 43,000   | 46,000   | 153,653    | 250,000    |
| Average cash operating cost per ounce | \$ 1,377                     | \$ 1,025 | \$ 1,045 | \$ 1,179   | \$ 950     |
| <b>Wassa</b>                          |                              |          |          |            |            |
| Ounces                                | 91,795                       | 40,000   | 46,000   | 177,795    | 145,000    |
| Average cash operating cost per ounce | \$ 779                       | \$ 865   | \$ 780   | \$ 799     | \$ 850     |
| <b>Consolidated</b>                   |                              |          |          |            |            |
| Ounces                                | 156,448                      | 83,000   | 92,000   | 331,448    | 395,000    |
| Average cash operating cost per ounce | \$ 1,026                     | \$ 948   | \$ 913   | \$ 975     | \$ 913     |

Notes:

1. 2011 Bogoso/Prestea production guidance includes only output from the Bogoso sulfide mill. 2012 guidance includes approximately 92,000 ounces from oxide and other non-refractory ores.
2. Costs at Bogoso/Prestea include extra stripping required to recover the mining sequence.
3. Power and fuel prices used in the forecast are unchanged from present at \$0.15 per kilowatt-hour and \$1.35 per liter, respectively.
4. Ounces shown for Wassa in 2012 are dependent upon timely receipt of the environmental permit needed to raise Wassa's tailings dam.
5. Bogoso cash operating cost in 2012 includes the operating cost of a new water treatment plant scheduled to come on line in early 2012. The water treatment costs will add approximately \$60 per ounce at Bogoso in 2012 and 2013, but will drop sharply after 2013 when the current backlog of process water is treated and discharged from the tails ponds.

As more fully disclosed in the Risk Factors in Item 1A of this Form 10-Q, 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 estimates described above could change materially.

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

In the various jurisdictions where we operate, all phases of our exploration, project development, and operations are subject to environmental laws and regulations. These laws and regulations may define, among other things, air and water quality standards, waste management requirements, and closure and rehabilitation obligations. In general, environmental legislation is evolving to require more strict operating

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standards, more detailed socioeconomic and environmental impact assessments of proposed projects, and a heightened degree of accountability for companies and their officers, directors, and employees for corporate social responsibility, and health and safety. Changes in environmental regulations, and the way they are interpreted by the regulatory authorities, could affect the way we operate, resulting in higher environmental and social operating costs that may affect the viability of our operations.

We note a continuing trend toward substantially increasing environmental requirements and greater corporate social responsibility expectations in Ghana. This includes requirements for more permits, analysis, data gathering, community hearings and negotiations than have been required typically in the past for both routine operational needs and for new development projects. The trend to longer lead times in obtaining environmental permits has reached a point where we are no

longer able to accurately estimate permitting times for our planning purposes. The increases in permitting requirements could affect our environmental management activities including but not limited to tailings disposal facilities and water management projects at our mines.

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 and applied in a manner that could have an adverse effect on our financial position and results of operations.

In July 2011 we increased a letter of credit for Wassau's environmental bonding from \$2.85 million to \$7.8 million. This brought the bonded amount, including \$0.15 million of cash, from \$3.0 million to \$7.95 million.

#### **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 August 5, 2011. As of August 5, 2011, we had outstanding 258,609,486 common shares, options to acquire 8,485,872 common shares, 8,483 deferred share units, and convertible debentures which are 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 debt, changes in foreign currency exchange rates and commodity price fluctuations.

##### **INTEREST RATE RISK**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our convertible senior unsecured debentures and the outstanding loans under our equipment financing facility bear interest at a fixed rate and do not subject us to changes in future interest payments, but the fair value of these liabilities can fluctuate with changes in our borrowing rates. Our revolving credit facility has a variable interest rate of the higher of the applicable lender's cost of funds (capped at 1.25% per annum above LIBOR) and LIBOR plus a margin of 5%. As of June 30, 2011, we had a nil balance outstanding on this facility. 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.

##### **FOREIGN CURRENCY EXCHANGE RATE RISK**

Currency risk is risk that the fair value of future cash flows will fluctuate because of changes in foreign currency exchange rates. In addition, the value of cash and cash equivalents and other financial assets and liabilities denominated in foreign currencies can fluctuate with changes in currency exchange rates.

Since our revenues are denominated in U.S. dollars and our operating units transact much of their business in U.S. dollars, we are typically not subject to significant impacts from currency fluctuations. Even thus, certain purchases of labor, operating supplies and capital assets are denominated in Ghana cedis, Euros, British pounds, Australian dollars and South African rand. To accommodate these purchases, we maintain operating cash accounts in non U.S. dollar currencies and appreciation of these non U.S. dollar currencies against the U.S. dollar results in a foreign currency gain and a decrease in non U.S. dollar currencies results in a loss. In the past, we have entered into forward purchase contracts for South African rand, Euros and other currencies to hedge expected purchase costs of capital assets. During 2010 and 2009 we had no currency related derivatives. At December 31, 2010, and June 30, 2011, we held \$9.4 million and \$8.3 million, respectively, of foreign currency.

##### **COMMODITY PRICE RISK**

Gold is our primary product and changes in the price of gold can significantly affect our results of operations and cash flows. Based on our expected gold production in 2011, a \$10 per ounce change in gold price would result in a \$3 to \$4 million change in our sales revenues and operating cash flows. To reduce gold price volatility, we have at various times used gold price derivatives. We do not perform the assessments required to achieve hedge accounting for commodity derivative positions. Accordingly, the changes in the values of these derivatives are recorded currently in our Consolidated Statements of Operations as Derivative Gains and Losses.





We held no gold price derivatives as of December 31, 2010. In January 2011, we entered into a series of put and call contracts covering 76,800 ounces of future gold production between February and December 2011. The contracts are spread evenly in each week over this period and are structured as cashless collars with a floor of \$1,200 per ounce and a cap of \$1,457 per ounce. As of June 30, 2011, contracts covering 41,600 ounces of gold were outstanding.

In early February 2011, we entered into a second set of put and call contracts covering 75,200 ounces of future gold production between February and December 2011. The contracts are spread evenly in each week during this period and are structured as cashless collars with a floor of \$1,200 per ounce and a cap of \$1,503 per ounce. As of June 30, 2011, 41,600 of these were still outstanding.

The puts were purchased to temporarily establish a fixed gold price for the output of one of our mines which is experiencing a period of higher than typical operating costs during the development phase of its new pit. The calls were sold to provide funding for purchase of the puts. Additional information about our gold price derivative activity can be found in Note 5 of our financial statements.

#### **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.

This Form 10-Q was prepared with the assistance of, and approval by our Disclosure Committee prior to its filing with securities regulators in the U.S., Canada and Ghana. Our Disclosure Committee includes a broad cross-section of Company employees who are closely associated with and knowledgeable about the Company's operations and its engineering, exploration, legal, environmental, socio-economic and financial activities. Our Forms 10-Q and 10-K, are also reviewed by our Audit Committee which, prior to filing, meets with senior management to review the documents. Subsequent to its review, the Audit Committee forwards the documents to the Board of Directors with recommendation that the directors approve the document for filing with securities regulators and distribution to shareholders.

## **PART II OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

**B.D. Goldfields Action** On July 19, 2011 B.D. Goldfields, Ltd. ( plaintiff ), a Ghanaian registered company, filed suit in the Superior Court of Judicature in the High Court of Justice, Commercial Division in Accra, Ghana (suit number RPC/282/2011), against Golden Star Resources Ltd. and our subsidiary St. Jude Resources Ltd. The plaintiff is challenging the validity of the concession contracts and settlements related to our acquisition of the Hwini-Butre gold property in Ghana in 2006. More specifically the plaintiff is taking the position that the original sales agreement covered only a small section of the Hwini-Butre concession and is now seeking \$24 million plus a royalty for the remaining portion of the concession. The plaintiff has previously filed similar suits in other jurisdictions, challenging our ownership of the Hwini-Butre concession and these prior claims were dismissed by the courts. The plaintiff is seeking an injunction which would halt mining on the concession until all legal issues are resolved. We believe this action is frivolous and we intend to vigorously defend against all claims. No further developments are expected in this litigation until October 2011 when the court reconvenes after its recess.

#### **ITEM 1A. RISK FACTORS**

The risk factors for the quarter ended June 30, 2011 are substantially the same as those disclosed and discussed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010.



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

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. [REMOVED AND RESERVED]**

**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)
- 101 The following financial statements, formatted in XBRL: (i) Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010, (ii) Consolidated Statements of Operations for the six months ended June 30, 2011 and 2010, (iii) Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010; and (iv) Notes to the Unaudited Consolidated Financial Statements, tagged as blocks of text. The information in Exhibit 101 is furnished and not filed, as provided in Rule 402 of Regulation S-T.

**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: August 8, 2011

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

Date: August 8, 2011