# MANAGEMENT'S DISCUSSION AND ANALYSIS 2007

Notice to Reader:

The accompanying management's discussion and analysis for the year ended 31 December 2007 has been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. The Company's auditors have reviewed the management's discussion and analysis. Financial information is presented in €uros and, where appropriate, in United States dollars, in accordance with International Financial Reporting Standards as adopted by the European Union. Readers are cautioned that these statements contain certain forward-looking information as described in management's discussion and analysis.

**MANAGEMENT OF THE COMPANY**

List of the directors and officers as of 14 March 2008

**Ian L. Boxall** [1, 2]
Businessman
George Town, Grand Cayman, Cayman Islands

**James H. Dunnett**
Directeur-Général,
EURO Ressources S.A.
George Town, Grand Cayman, Cayman Islands

**Donald R. Getty** [1, 2]
President and Chief Executive Officer, Sunnybank Investments Ltd.
Edmonton, Alberta, Canada

**Susanne A. Hermans**
Vice-Président, Finance and Directeur-Général Délégué
EURO Ressources S.A.
Littleton, Colorado, USA

**Allan J. Marter**
Président
EURO Ressources S.A.
Littleton, Colorado, USA

**David H. Watkins** [1, 2]
President and Chief Executive Officer, Atna Resources Ltd.
Vancouver, British Columbia, Canada

(1) Member of the Compensation Committee.
(2) Member of the Audit Committee.

**Stock Exchange Listing**

EURONEXT, Compartment C - continuous
Symbol: EUR

Toronto Stock Exchange
Symbol: EUR

**Registrar and Transfer Agent**

Questions regarding the change of stock ownership, consolidation of accounts, lost certificates, change of address and other such matters should be directed to:

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Emetteur assemblé
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**Equity Transfer and Trust Company**
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**Co-Auditors**

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**Registered Office**

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**Société anonyme** with a share capital of €605,914.60
SIRET 390 919 082

Number of employees: 3

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## MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is prepared as at 14 March 2008 and should be read in conjunction with, and is qualified by, our consolidated financial statements and related notes for the periods indicated. The financial statements have been prepared in €uros and in accordance with International Financial Reporting Standards as adopted by the European Union.

## INTRODUCTION

EURO Ressources S.A. (“EURO” or the “Company”) is a French company and is listed on Euronext in Paris. In accordance with French regulations, the Company prepares its consolidated accounts in €uro which is the presentation currency for its consolidated financial statements. The functional currency of EURO is the United States dollar which is the denominational currency for its major transactions, such as income from Rosebel, its term loans and gold hedge liabilities. Therefore, management has presented certain data in this MD&A in US dollars. All dollar amounts are United States dollars (US dollars or $), unless otherwise designated.

The currency exchange rate used to present the financial statements in €uro is €1 = $1.47285 for balance sheet items at 31 December 2007 (€1 = $1.3202 as at 31 December 2006). The average currency exchange rate for the twelve months ended 31 December 2007, used to present the consolidated income and cash flow statements, is $1.37074 (2006: €1 = $1.2558).

## STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements, with respect to our financial condition, results of operations, business prospects, plans, objectives, goals, strategies, future events, capital expenditure, and exploration and development efforts. Words such as “anticipates”, “expects”, “intends”, “plans”, “forecasts”, “projects”, “budgets”, “believes”, “seeks”, “estimates”, “could”, “might”, “should”, and similar expressions identify forward-looking statements. Although we believe that our plans, intentions and expectations reflected in these forward-looking statements are reasonable, we cannot be certain that these plans, intentions or expectations will be achieved. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this Annual Report. These statements include comments regarding: the establishment and estimates of mineral resources, exploration spending, the closing of certain transactions including acquisitions and offerings and expectations of future participation rights payments.

## RESULTS OF OPERATIONS

### Overview

EURO’s principal business is to own certain gold exploration properties in French Guiana and royalties on operating gold mines. We currently own a royalty (the “Rosebel royalty”) on the Rosebel gold mine in Suriname which is owned and operated by IAMGOLD Corporation (“IAMGOLD”). We receive quarterly payments from IAMGOLD on this royalty. We are actively seeking to acquire additional royalty rights.

We continue to own certain gold exploration properties and property interests in French Guiana. On 23 March 2007 we concluded a memorandum of understanding (“MoU”) with Golden Star Resources Ltd. (“Golden Star”) regarding, amongst other things, an amendment to the previous agreement with Golden Star for their acquisition of the Paul Isnard concessions and exploration permit held by EURO in French Guiana. This MoU provides for a sale consideration determined in a manner similar to a royalty. This amendment remains subject to final documentation.

## 2007 compared to 2006

We had revenue of €8.09 million in 2007 compared to €7.67 million in 2006. Substantially all of this revenue is income from the Rosebel royalty. Liquidated hedging costs associated with our scheduled loan repayments in 2007 were €4.26 million (2006: €3.33 million) providing net revenue after hedging of €3.83 million (2006: €4.34 million). This decrease in net revenue reflects the lower production at Rosebel during the year, mainly due to the effects of the strike at the mine in the first quarter of 2007.

General and administrative expenses were €1.92 million (2006: €2.02 million) a small reduction despite continued high legal and accounting expenses arising from the dual listing on the Euronext, Bourse de Paris in France and the Toronto Stock Exchange. The legal and professional costs of the rights issue undertaken in November 2007, amounting to €0.23 million were capitalized and are not included in expenses. Interest expense decreased in 2007 to €0.43 million (2006: €0.73 million) reflecting a further reduction in the debt due to Macquarie Bank Limited ("Macquarie") and the repayment during the year of the debt due to Golden Star.

The decrease in amortization expenses to €0.59 million (2006: €0.70 million) reflects the decrease in gold production for the year with a constant amortization expense per ounce. The debt accretion charge of €0.31 million (2006: €0.35 million) reflects the accounting treatment for the deferred component of the Rosebel royalty purchase consideration, which deferred purchase consideration was settled in full with effect from the third quarter 2007.

Notwithstanding the economic effectiveness of the derivatives used to hedge certain of the future cash flow from the Rosebel royalty, which were implemented as a requirement of our loan from Macquarie, we have recognized against income the total unrealized mark-to-market position of our outstanding gold hedge position. The increase in unrealized mark-to-market derivative losses in 2007 of €2.33 million (2006: €4.02 million), before tax adjustment, do not reflect or affect current cash-flow. If hedge accounting had been available, these prospective losses would have been brought to account against the matching income. Also, the contango costs inherent in the mark-to-market loss now reflected against income would not arise.

The smaller increase in the unrealized mark-to-market derivative loss in 2007 compared to 2006, despite the substantial increase in the gold price (from $632.00 at 31 December 2006 to $833.75 at 31 December 2007) reflects the reduction in the remaining hedge book through scheduled maturity and, in part, the early liquidation of 8,000 ounces of the gold hedge in the fourth quarter 2007. A liquidated loss of €2.08 million was recorded on the early liquidation of that portion of the hedge.

We have recognized a future tax credit in the 2007 balance sheet of €7.82 million being €3.40 million against the unrealized mark-to-market position at year end and €4.40 million in respect to cumulative net operating losses.

The loss for 2007 of €0.76 million (€0.014 per share) compares to a loss of €2.54 million (€0.05 per share) for 2006.

## Q4 2007 compared to Q4 2006

In the fourth quarter of 2007 we recognized €2.80 million of revenue compared to €2.12 million in the same quarter of 2006. Substantially all of this revenue is income from the Rosebel royalty. Production at the Rosebel gold mine was reported as 83,438 ounces of gold in the fourth quarter 2007, a 17% increase from the 71,370 ounces produced in the fourth quarter of 2006. Liquidated hedging costs associated with our scheduled loan repayments were €1.32 million in the fourth quarter of 2007 (2006: €0.86 million) providing net revenue after related hedging expense of €1.48 million (2006: €1.26 million).

The increase in the mark-to-market loss during the quarter of €1.54 million primarily reflected the increase in the gold price during the quarter from $743.00 to $833.75 per ounce on the outstanding hedge of 37,600 ounces, offset by the portion of the hedge liquidated in tandem with the scheduled loan repayment and the liquidation of a further 8,000 ounces during the quarter. This compared to €0.88 million in the fourth quarter of 2006 and a gold price increase from $599.25 to $632.00 per ounce on the then outstanding hedge of 68,400 ounces.

General and administrative expenses were €0.32 million (2006: €0.64 million) reflecting a substantial decrease in routine legal and accounting expenses. Legal and professional expenses related to the rights issue were capitalized and treated as a reduction in paid-in-capital.

The increase in amortization expense to €0.17 million (2006: €0.14 million) reflects increased gold production in the quarter of 17%. Following settlement in full of the contingent element of the Rosebel royalty, there was no debt accretion charge during the quarter (2006: €0.09 million). However, an accounting adjustment following that settlement required a charge of € 0.04 million which reflects the difference between the deferred component of the Rosebel royalty purchase consideration previously recorded and the actual amount of the settlement made in the fourth quarter 2007. The reduction in interest charges to €0.04 million (2006: €0.18 million) reflects repayment of the debt previously due to Golden Star.

## OUTLOOK

During 2008, the Rosebel royalty is expected to provide increased cash flow to the Company as compared to 2007, assuming the forecast increase in production at Rosebel is achieved and currently higher gold prices are maintained. The net cash-flow will be further increased by a reduction in the scheduled liquidation of the gold hedge in 2008 of 14,800 ounces compared to a comparable reduction in 2007 of 22,800. Additional fair value derivative losses, primarily reflecting increased gold prices, may adversely affect our stated earnings; however this accounting treatment will not directly impact cash-flow. We expect our cash-flow will be adequate to meet all corporate and related expenses, including scheduled debt service.

## KEY FINANCIAL DATA

**All financial data in table is in thousands of €uro except per share data**

**Annual data - financial year ended 31 December**

| | **2007** | **2006** | **2005** |
|---|---|---|---|
| Total revenue | €8,086 | € 7,671 | €4,330 |
| Loss on derivatives | (4,260) | (3,330) | (438) |
| Total revenue less loss on derivative | 3,826 | 4,341 | 3,892 |
| Net loss | (763) | (2,542) | (602) |
| Net (loss) per share, basic and fully diluted | (0.015) | (0.050) | (0.013) |
| Total assets | 19,791 | 20,489 | 21,225 |
| Total long-term financial liabilities | 7,846 | 14,908 | 16,126 |
| Cash dividends declared | Nil | Nil | Nil |

**Quarterly data in thousands of €uro except per share information**

| | **2007 Q4** | **2007 Q3** | **2007 Q2** | **2007 Q1** |
|---|---|---|---|---|
| Total revenues less loss on derivatives | €1,462 | €1,114 | €875 | €375 |
| Cash provided by (used) in operating activities | 813 | 463 | (404) | 145 |
| Net profit (loss) | (582) | (1,521) | 1,670 | (330) |
| Net profit (loss) per share, basic<br>fully diluted – per share | €(0.01) | €(0.03) | €0.03<br>€0.03 | €(0.00) |

| | **2006 Q4** | **2006 Q3** | **2006 Q2** | **2006 Q1** |
|---|---|---|---|---|
| Total revenues less loss on derivatives | €1,277 | €1,122 | €1,032 | €909 |
| Cash provided by (used) in operating activities | 107 | 511 | 526 | 238 |
| Net profit (loss) | (790) | 1,709 | (844) | (2,618) |
| Net profit (loss) per share, basic<br>fully diluted – per share | €(0.01) | €0.03<br>€0.03 | €(0.02) | €(0.02) |

## LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash and cash equivalents at 31 December 2007 totaled €0.6 million, including €0.03 million of restricted cash. We expect to have sufficient cash flow to fund our on-going operational needs and to provide sufficient resources to investigate acquisition opportunities.

In November 2007, we successfully completed a rights issue with our shareholders, raising additional equity of €7.34 million in cash. We used this increased liquidity to repay the full amount of the principal and accrued interest owing to Golden Star of $3.72 million. Further we settled the full amount of the deferred component of the Rosebel royalty purchase consideration due to Golden Star by payment of $4.40 million.

In December 2007, we liquidated 8,000 ounces of our gold hedge position resulting in an outstanding hedge position of 37,600 ounces remaining, with 14,800 ounces scheduled for liquidation in 2008 and 22,800 ounces in 2009. We intend to use available liquidity from time to time to further liquidate this hedge ahead of its scheduled maturity, but consistent with our other liquidity requirements.

As a consequence of not recording the contingent Rosebel royalty for 2008 as a current receivable, we report a working capital deficiency. Since we anticipate that the Rosebel royalty will be paid on the forecast production at Rosebel, and our hedging program assures certain minimum revenue per ounce of production, we have adequate liquidity to meet our obligations as they become due.

We intend to investigate additional acquisitions of gold mineral interests and would require additional capital to complete any such transaction. In addition to established cash-flow, we would anticipate arranging a combination of equity and debt transactions as sources of capital to fund such transactions. There is no assurance that we will identify suitable acquisitions or, that we could obtain additional funding at acceptable prices.

## HEDGING

As required by the loan agreement from Macquarie, we entered into a cash-settled forward sales agreement in January 2005 which obligated us to sell 5,700 ounces of gold to the financial institution at the end of each calendar quarter, beginning 31 March 2005 and every three months thereafter until 30 June 2007. Settlement occurs at the end of the month following the calendar quarter. During the third quarter 2005, we entered into a further similar cash settled forward sales contract which obligates us to sell a further 5,700 ounces of gold to Macquarie at the end of each calendar quarter, beginning in the third quarter of 2007 until 31 December 2009. In both contracts, cash settlement occurs on the 29th day of the month following the calendar quarter.

In terms of these cash settled forward sales contracts, when the average price for the London PM gold fix for the calendar quarter is less than the contract price, the financial institution will pay an amount to EURO equal to the difference between the average price for that quarter and the contract times 5,700 ounces. If the prior calendar quarter average price exceeds the contract price per ounce we will pay the financial institution an amount equal to the difference between the average price and the contract price per ounce times 5,700 ounces. The contract price for the initial cash settled forward sales contract was $421.00. It is $458.50 for the second series of sales.

The hedge is structured to reflect and offset the variable nature of the gold price used in calculating the amount due to the Company in terms of the Rosebel royalty. Since the Rosebel royalty is calculated quarterly on the average gold price and 10% of attributable production, the 5,700 ounces of each quarterly contract represent a hedge of 57,000 of attributable production per quarter.

Following the liquidation of hedges at their scheduled maturity and the liquidation of 8,000 ounces of the hedge in advance of their scheduled maturity, we had 37,600 ounces of gold derivative contracts outstanding at 31 December 2007, all at a contract price of $458.50, with the following maturities:

| | 2008 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** |
| **Gold ounces** | 3,200 | 3,200 | 3,700 | 4,700 | 5,700 | 5,700 | 5,700 | 5,700 |

## DEBT AND CONTRACTUAL OBLIGATIONS

The amounts shown below are undiscounted to show full expected cash requirements, in thousands of dollars in respect to debt and contractual obligations.

| **In thousands of dollars** | **Payments due by period** | | | | |
|---|---|---|---|---|---|
| | **Total** | **< 1 Year** | **1- 3 Years** | **4- 5 Years** | **> 5 Years** |
| Macquarie Bank Limited | $3,067 | $2,400 | $667 | - | - |

## SHARE CAPITAL

As at 31 December 2007 and the date of this report, we had 60,591,460 common shares outstanding with a par value of €0.01 per share. 10,148,576 new shares were issued during the twelve months ended 31 December 2007. As at 31 December 2007 and the date of this report, our share capital was:

| | € |
|---|---|
| Par | 606 |
| Premium | 45,634 |
| Total Share Capital | € 46,240 |

## CRITICAL ACCOUNTING ESTIMATES

Preparation of our consolidated financial statements requires the use of estimates and assumptions that can affect reported amounts of assets, liabilities, revenues and expenses. Accounting policies relating to current and future values, depreciation, depletion and amortization of bank loans, future royalty payments, equipment, and expense accruals are subject to estimates and assumptions regarding reserves, gold recoveries, future gold prices and future mining activities.

Prior to 2007, the Rosebel royalty acquired from Golden Star was capitalized as the net present value of the future consideration to be paid to Golden Star, calculated at an annual discount rate of 12%, being the marginal borrowing rate for the Company. In determining the payments to be made, the reserve and resource components of the Rosebel gold mine were reviewed by a Qualified Person who prepared the Company's report in terms of Canadian National Instrument 43-101. Based on this report, the calculation utilized 100% of the Proven and Probable reserves, 67% of the Indicated resources and 33% of the Inferred resources. In the fourth quarter of 2007, we paid $4.4 million to Golden Star in full settlement of the deferred purchase price payments that would otherwise have been due to Golden Star.

We have written off substantially all of our investments in exploration properties based upon our previous assessments of the amounts recoverable from these properties. We continue to retain title to certain properties after impairment write-offs as future events and discoveries may ultimately prove that they have significant value.

## RELATED PARTY TRANSACTIONS

Mr. James H. Dunnett, Directeur-Général, provides advisory services to the Company through Xystus Holdings Corp. Ltd., of which Mr. Dunnett is chief executive and which is a 7.74% shareholder of EURO.

Until June 2006, EURO was a subsidiary of Golden Star, which held more than 50% of the Company's issued share capital. Consequent on the sale of part of Golden Star's shareholding in June 2006 it then held less than a 50% shareholding and EURO was no longer a subsidiary of Golden Star. Golden Star has subsequently sold substantially all of its shareholding in EURO and has declared their shareholding to be less than 5%.

## PAUL ISNARD - Memorandum of Understanding

On 23 March 2007, EURO entered into a memorandum of understanding with Golden Star regarding various matters which have all been consummated, except the transaction regarding Paul Isnard which awaits final documentation. The principal terms of this agreement on Paul Isnard are:

Under the amendment to the previous agreement with Golden Star on the Paul Isnard concessions and PER (the "Properties") held by EURO in French Guiana, Golden Star agreed to certain exploration and development commitments and will pay a purchase consideration equivalent to a royalty on production.

The principal terms of the agreement are:

- EURO will receive royalty payments from production on the Properties calculated as to:
    - 10% on the first two million ounces of production, and
    - 5% on the next three million ounces of production,

  in both cases multiplied by the market price of gold in excess of $400/ounce. The market price of gold being determined as the simple average of the London PM gold fix for each calendar quarter.
- By November 2007, Golden Star will spend €1,215,000 on the Paul Isnard exploration permit held by EURO.
- Golden Star undertakes to complete a feasibility study on at least one project on the Properties within 12 months.
- Subject to a positive feasibility study, Golden Star will commence commercial production within 30 months.
- In the event of commercial production being delayed, Golden Star will pay advance royalties of $1 million per annum.

As at the date of this report, Golden Star had fulfilled the required expenditure on Paul Isnard.

## DISCLOSURE CONTROLS AND PROCEDURE

The Company has limited employees and subsidiary activities. Accordingly, the Directeur-Général and Vice Président, Finance have reasonable assurance that material information relating to the Company and its consolidated subsidiaries are known to them and the Directeur-Général and Vice Président Finance have concluded that the Company's disclosure controls and procedures are effective.

## ADDITIONAL INFORMATION

Additional information relating to EURO Ressources S.A. is available on SEDAR at www.sedar.com. Information related to the Rosebel Royalty can be found at IAMGOLD's website at www.iamgold.com. Further requests for information should be addressed to:

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