

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

The following discussion and analysis 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 United States dollars and in accordance with Canadian generally accepted accounting principles.

### STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report 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 Quarterly Report. These statements include comments, both expressed and implied regarding financing, operating plans, reserves and resources.

### RESTATEMENT

January 2005 the Company entered into cash settled gold forward sales contracts and implemented a hedge accounting policy for the accounting treatment of these forward sales contracts. In the first quarter of 2006 it was concluded that the Company's accounting for these forward sales contracts do not qualify for hedge accounting under Canadian generally accepted accounting principles.

As a result, the Company has restated its unaudited consolidated financial statements for each of the three quarters from March 31, 2005 to September 30, 2005.

The Company is now required to recognize mark-to market valuations of its open forward contract positions through its income at the end of each period. In the past, the Company had recognized gains, losses, revenues and expenses from its forward sales contracts in its income only in the period in which they settled. The effects of the change in accounting treatment are summarized in the tables below:

	Three Months		Year to Date	
	As Previously Reported Sept. 30, 2005	As Restated Sept. 30, 2005	As Previously Reported Sept. 30, 2005	As Restated Sept. 30, 2005
Revenue - Royalties, Interest and Other	\$1,203	\$1,203	\$3,397	\$3,397
Derivatives	-	\$(5,002)	-	\$(6,426)
Future Income Tax Recovery	-	\$1,651	-	\$2,121
Net Income (Loss) for the Period	\$253	\$(3,098)	\$689	\$(3,616)
Retained Deficit (Beginning of Period)	\$(62,583)	\$(63,537)	\$(63,019)	\$(63,019)
Retained Deficit (End of Period)	\$(62,330)	\$(66,635)	\$(62,330)	\$(66,635)
Net Income (Loss) Per share	\$0.006	\$(0.069)	\$0.015	\$(0.080)
Net Income (Loss) per share (fully diluted)	\$0.006	\$(0.069)	\$0.015	\$(0.080)
Future Tax Asset	-	\$1,651	-	\$2,121
Derivative Liability	-	\$(5,002)	-	\$(6,426)

## **RESULTS OF OPERATIONS**

### **Overview**

EURO Ressources S.A. (EURO) has a business of owning certain gold exploration properties in French Guiana and of acquiring and holding mineral royalties. We currently own the Rosebel Participation Right (the "Rosebel Royalty") which provides for quarterly payments to the Company based on production at the Rosebel gold mine in Suriname. The mine is owned and operated by Cambior Inc. We are actively seeking to acquire additional royalty rights

During 2004, we completed a financial restructuring which among other things, waived our then existing debt to Golden Star arising from loan funding provided for our activities since late 1990s. Prior to 2005, we were engaged in the business of gold and diamond exploration in French Guiana.

Reflecting the restructuring of the Company and in order to avoid confusion with other public companies with similar names, on June 23, 2005, the Company's shareholders unanimously approved the Company's name change to EURO Ressources S.A..

### **Debt**

Upon completion of the restructuring in late 2004, we purchased the Rosebel Gold Mine Participation Right (the Rosebel Royalty) from Golden Star for an amount recorded as \$13.5 million. In January 2005, we borrowed \$6.0 million from a commercial bank ("Macquarie") and used those funds to pay the initial installment of the purchase price due to Golden Star. An additional installment of \$6.0 million of the purchase price was payable to Golden Star on June 30, 2005 however, in support of the bank financing, Golden Star agreed to deferment of such payment with interest to accrue at 12% per annum.

In August of 2005 Golden Star agreed to revised terms for this \$6.0 million loan, subject to the payment of an additional \$3 million of principal. This payment was made on 30<sup>th</sup> September following an increase in the bank facility. Accordingly, interest on the amounts due to Golden Star was waived on the \$3 million repaid and amended to 6% p.a., payable quarterly, until 31<sup>st</sup> December 2005 on the balance of \$3 million.. Interest will be payable at 12% p.a., effective 1<sup>st</sup> January, 2006 if the loan is not repaid in full by 31<sup>st</sup> December, 2005 and fee of 3% of the outstanding principal amount will be payable to Golden star on or before 31<sup>st</sup> January 2006.

During the term of the Macquarie loan, principal amounts due to Golden Star may only be paid from funds other than those arising from the Rosebel Royalty. There is no event of default arising from this deferment and we continue to benefit from ownership of the royalty.

The additional amount of \$3 million advanced under the revised credit facility from Macquarie is repayable in 5 equal quarterly payments of \$600,000 commencing 31st October 2007. The terms of the facility remain unchanged: a facility fee of \$45,000 was paid to Macquarie in connection with the increased facility.

### **Three months ended September 30, 2005 compared to three months ended September 30, 2004**

Revenue for the three months ended September 30, 2005 of \$1.1 million (2004: \$24,000), consisted substantially of income from the Rosebel royalty, payable to the Company on production from the Rosebel Gold Mine. During the three months ended September 30, 2005, the Company recorded a net loss of \$(3.1 million), or 0.07 cents per share compared to a net loss of \$(742,000) or 0.016 cents per share during the three months ended September 30, 2004.

General and administrative costs were \$299,000 during the three months ended September 30, 2005 compared to \$410,000 during the same period last year. This decrease reflects the reorganization completed in Q3 2004, which also reduced interest costs to \$138,000 during the three months ended September 30, 2005 compared to \$309,000 during the comparative period in 2004. We recognized a non-cash expense of \$5.0 million in connection with the mark-to-market valuation of our hedging contracts having a loss of this amount. The increase in depreciation and amortization expenses of \$358,000 (2004: \$3,000) during the three months ended September 30, 2005 records the amortization of the acquisition costs of the Rosebel Royalty in 2005. The charge of \$47,000 for debt accretion relates to the accounting treatment for the deferred component of the Rosebel Royalty purchase consideration.

### **Nine months ended September 30, 2005 compared to nine months ended September 30, 2004**

We recorded a net loss of \$3.6 million during the first nine months of 2005, compared to a loss of \$2.1 million for the first nine months of 2004. Revenue from the Rosebel Royalty of \$3.4 million; less hedge costs of \$184,000, was the major factor contributing to the increase in revenues as compared to the same period of 2004. During the first nine months of 2005, operating costs increased by \$0.5 million compared to the same period in 2004. Amortization of the royalty acquisition purchase price and accretion of additional liability for future amounts due Golden Star were the major factors responsible for the increase.

We recognized a non-cash expense of \$6.4 million in connection with the mark-to-market valuation of our hedging contracts having a loss of this amount over the first nine months.

In the first nine months of 2004, we eliminated most of the costs related to maintaining an office and staff in Cayenne and to exploration and property holding costs in French Guiana. The Cayenne office was closed in late 2004 and all employees were either transferred to Golden Star or their employment was terminated. In 2005, property holding costs have been substantially reduced through the sale of certain properties and the optioning of the remaining properties to Golden Star.

While corporate operating costs have been substantially reduced in 2005 compared to 2004, the entity holding costs such as stock transfer charges, exchange listing fees, board costs, audit and legal costs continue.

## Outlook

During 2005, the Rosebel Royalty is expected to provide revenue to the Company in excess of \$4.0 million, assuming that production at the Rosebel mine continues at current levels and the gold price averages above \$425 per ounce. We expect this will be adequate to meet all corporate and related expenses, including debt service.

We continue to actively review opportunities to raise additional debt or equity funding to provide capital for the acquisition of additional royalty interests and to repay or restructure existing corporate obligations.

## KEY FINANCIAL DATA

All data in table in thousands of dollars.

	<b>2005</b> Quarter 3	<b>2005</b> Quarter 2	<b>2005</b> Quarter 1	<b>2004</b> Quarter 4
Total revenues	\$ 1,093	\$ 1,047	\$ 1,073	\$ 22
Cash provided (used) in operating activities	641	1,153	(125)	(129)
Net profit / (loss)	(3,098)	75	(593)	(129)
Total assets	16,698	15,934	16,370	14,139
Total long-term financial liabilities	3,765	7,095	7,602	1,186
Cash dividends declared	-	-	-	-

	<b>2004</b> Quarter 3	<b>2004</b> Quarter 2	<b>2004</b> Quarter 1	<b>2003</b> Quarter 4
Total revenues	\$ 24	\$ 22	\$ 29	\$ 64
Cash (used) in operating activities	(742)	(683)	(684)	(854)
Net profit / (loss)	(742)	(683)	(684)	(854)
Total assets	153	152	152	156
Total long-term financial liabilities	-	-	-	-
Cash dividends declared	-	-	-	-

## LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash as of September 30, 2005, totaled \$690,000, versus nil at December 31, 2004. Prior to the end of the second quarter, we reimbursed Golden Star for the short-term operational funding provided to us. At the end of July, we received our second quarter royalty payment of \$1.1 million from Cambior as per the terms of the Rosebel Royalty. We anticipate that future quarterly royalty payments will be sufficient to meet all of our operational and debt service requirements. At the end of September 2005, we drew an additional \$3 million under the revised credit facility with Macquarie which was used to repay Golden Star. During the term of the Macquarie loan, the outstanding principal amount of \$3 million due to Golden Star may only be paid from funds other than those arising from the Rosebel Royalty. No event of default arises from this deferment.

See also, Subsequent Events.

## **RELATED PARTY TRANSACTIONS**

On January 8, 2005, EURO borrowed \$6.0 million from a commercial bank and paid the full amount to Golden Star as the first installment for the Rosebel royalty which EURO purchased in December 2004. Golden Star continued to provide funding to EURO for its operating expenses into the second quarter of 2005.

At the end of April 2005 EURO received its first royalty payment from Cambior Inc. and prior to the end of the second quarter, EURO reimbursed Golden Star for the funding provided for these operating expenses. We expect to fund all of our future operational cash needs from cash on hand and future royalty receipts.

During the third quarter, we drew an additional \$3 million under the revised commercial bank loan and used this amount to reduce the loan due to Golden Star to \$3 million. During the term of the commercial bank loan, this amount due to Golden Star may only be paid from funds other than those arising from the Rosebel Royalty. EURO Ressources continues to actively seek debt or equity funding sufficient to repay the remaining \$3.0 million loan from Golden Star in a timely manner.

## **HEDGING**

As required by the loan agreement, 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 March 31, 2005 and every three months thereafter until June 30, 2007. Settlement occurs at the end of the month following the calendar quarter. During the third quarter, we entered into a further similar cash settled forward sales contract which obligates us to sell a further 5,700 ounces of gold to the same financial institution at the end of each calendar quarter, beginning in the third quarter of 2007 until January of 2010.

In terms of these cash settled forward sales contracts, when the average price for the London PM gold fix for the a 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 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 is \$421. 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, to the extent of attributable production of 57,000 ounces per quarter. Attributable gold production in the third quarter was approximately 80,000 ounces. Gold prices averaged \$439.72 per ounce during the third quarter of 2005 resulting in a payment due to the bank of \$108,106 in respect to the third quarter hedging.

See "Restatement"

## **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.

	<b>Payments ( \$'000) Due by Period</b>				
	<b>Total</b>	< 1 Year	1- 3 Years	4- 5 Years	> 5 Years
Golden Star Resources Ltd.	7,022	3,072	0	2	3,948
Macquarie Bank	8,400	2,733	5,667	0	0
<b>Total</b>	<b>\$ 15,422</b>	<b>\$ 5,805</b>	<b>\$ 5,667</b>	<b>\$ 2</b>	<b>\$ 3,948</b>

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our financial statements reflect the application of Canadian GAAP. The accounting policies reflected therein are generally those applied by similarly situated mining resource companies in Canada. Our accounting policies under Canadian GAAP are described in Note 4 of our consolidated financial statements as found in our 2004 Annual Report.

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 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.

Decisions to write off, or not to write off, all or a portion of our investment in various properties, especially exploration properties, subject to impairment analysis are based on our judgment as to the actual value of the properties and are therefore subjective in most cases. We have written off substantially all of our investments in exploration properties based upon our 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.

## **SHARE CAPITAL**

At September 30, 2005, we had 45,402,884 common shares with a par value of €0.01 per share. There were 400,000 new shares issued during the nine months ending September 30, 2005 consequent on the exercise of options granted in terms of the Company's Stock Option Plan, which shares are not yet listed.

### **Common Shares - as of September 30, 2005**

Par	\$ 612
Premium	<u>44,976</u>
Total Share Capital	<u>\$ 45,588</u>

Following the change of name of the Company to EURO Ressources SA, the symbol for the Company's shares was changed to EUR on both the Toronto Stock Exchange and the Euronext of the Paris Bourse, where the Company's shares continue to trade. Previously, during 2004, our former Class A and Class B common shares were merged into a single class of common stock.

This Management's Discussion and Analysis of Financial Condition and Results of Operation includes information available to October 31, 2005. As of October 31, 2005 there were 45,402,884 common shares outstanding.

### **SUBSEQUENT EVENTS**

During the third quarter, we entered into an agreement with Macquarie Bank Limited for a private placement of Treasury shares. Under this agreement, Macquarie Bank Limited agreed to purchase 4,000,000 common shares at a price of €0.20 (US\$ 0.25) each for a total amount of €800,000 (US\$1,000,000) and to purchase 1 million warrants at a price of €0.05 (US\$ 0.06) each for an additional €50,000 (US\$ 61,375). The warrants have an exercise price of €0.45 (US\$ 0.55) per warrant and a term of 2 years from the time of issue. 500,000 warrants will be exercisable immediately on issue and the remaining 500,000 warrants will only be exercisable one year after issue. Completion of this private placement remains subject to the approval of the shareholders of the Company to be considered at an extraordinary shareholder's meeting of the Company to be held in Paris on December 8, 2005.

### **ADDITIONAL INFORMATION**

Additional information relating to EURO Ressources S.A. is available on SEDAR at [www.sedar.com](http://www.sedar.com). Information related to the Gross Rosebel Royalty can be found at Cambior's website at [www.cambior.com](http://www.cambior.com). Further requests for information should be addressed to:

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