

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

The following discussion and analysis is prepared as at March 31, 2006 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 United States dollars and in accordance with Canadian generally accepted accounting principles.

### **STATEMENTS REGARDING FORWARD-LOOKING INFORMATION**

This Annual 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 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**

In 2004, EURO completed a financial restructuring and subsequently, in December 2004, acquired the Rosebel Royalty on the Rosebel gold mine in Suriname. This acquisition provides a long-term source of cash-flow. Further acquisitions of a similar nature are contemplated.

During 2005 we have had positive cash-flow and have been able to meet our operating costs from internally generated resources. Historically, the majority of our cash costs have been related to maintaining our corporate structure, our share listings in France and Canada and retaining title to our properties, management fees for services from Golden Star and interest on the loans advanced by Golden Star.

From the time EURO was established in 1993 until late in 2004, our business activities focused on exploration of precious metal deposits in French Guiana. In accordance with this business model we acquired the mineral rights to several exploration stage properties in French Guiana and conducted exploration related activities on these properties. Our exploration activities were funded through a combination of equity capital funds, joint venture partnership funds and loans from Golden Star, which remains our majority shareholder.

#### **2005 compared to 2004**

We recognized \$4.89 million of revenue in 2005 compared to \$97,000 in 2004. Substantially all of this revenue is income from the Rosebel Royalty. Hedging costs associated with this revenue were \$0.55 million (2004: nil) providing net revenue of \$4.34 million (2004: \$97,000). General and administrative expenses were \$1.32 million (2004: \$1.30 million) reflecting continued high legal and accounting expenses related to the reorganization of the Company and its Rosebel acquisition.

Expenses specific to the Rosebel Royalty, namely, depletion (\$1.36 million) and debt accretion (\$0.54 million) did not arise in 2004. The debt accretion expense is the equivalent of interest on the outstanding and contingent purchase price for the Rosebel Royalty. Interest of \$472,000 on the loans from Macquarie Bank and Golden Star, compared to the interest expense recorded in 2004 of \$824,000 on loans from Golden Star.

Reflecting the greater certainty of future profitability of the Company, in 2005 we provided for a future tax asset, recording the income losses incurred by the Company in prior years that are available to offset tax on future income. This gave rise to a future tax credit of \$4.38 million (2004: nil), representing future income tax recovery.

Notwithstanding the economic effectiveness of the derivatives used to hedge certain of the future cash flow from the Rosebel Royalty, in support of our loan repayment obligations, we have recognized against income the total unrealized mark-to-market position of our outstanding gold hedge position. The unrealized mark-to-market derivative losses of \$9.56 million (2004: nil), before tax adjustment, do not reflect current cash-flow. If hedge accounting had been available, these prospective losses would have been brought to account against the matching income, and the contango costs inherent in the mark-to-market loss now reflected against income would not arise.

We have recognized a future tax credit of \$7.53 million being \$3.15 million against the derivative losses recorded in the year and \$4.38 million in respect to net operating losses recorded in prior years. The resultant net loss of \$1.48 million compares to a loss of \$2.24 million in 2004.

#### **Q4 2005 COMPARED TO Q3 2005**

In Q4 2005 we recognized \$1.20 million of revenue compared to \$1.09 million in Q3. This increase reflected a higher gold price of \$484 for Q4 compared to \$440 for Q3 with, attributable production slightly reduced due to operational issues at Rosebel in December 2005. The average quarterly gold price (London PM fixing) used for calculating the royalty payments to EURO were \$484 in Q4 compared to \$440 for Q3. Substantially all of this revenue is income from the Rosebel Royalty. Hedging costs associated with this revenue were \$362,000 (Q3 : \$110,000) providing net revenue of \$1.13 million (Q3 : \$1.09 million).

The mark-to-market loss for the quarter of \$ 3.12 million reflected the increase in the gold price and contango rate during the quarter. The Q3 mark-to-market loss of \$ 5.0 largely reflected the increased hedging undertaken in conjunction with further advances under the Macquarie loan and an increase in the contango rate during that quarter..

General and administrative expenses were \$696,000 (Q3 : \$299,000) reflecting continued high legal and accounting expenses more fully recognized in Q4. The transition of the company's accounting function to Paris and the need to adopt IFRS accounting are reflected in Q4 as are the costs associated with the corporate re-organisation undertaken in Canada following a favorable tax ruling.

Reduced depletion of the Rosebel Royalty in Q4, of \$328,000 (Q3 :\$344,000) represents the reduction in production: and debt accretion \$51,000 (\$47,000) are consistently calculated. Interest of \$164,000 in Q4 compares with \$138,000 in Q3: the increase reflects the additional borrowing from Macquarie which as used to pay down a portion of the debt to Golden Star that was free of interest in Q3.

## OUTLOOK

During 2006, the Rosebel Royalty is expected to provide cash flow to the Company of about \$8.0 million at current gold prices of around \$550 per ounce, offset by hedging expense of approx. \$3.0 million. Additional mark-to-market 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 this cash-flow will be adequate to meet all corporate and related expenses, including debt service.

## KEY FINANCIAL DATA

All data in table in thousands of US dollars except per share data.

### Annual Data

#### Financial year ended 31 December

	2005	2004	2003
Total Revenue	\$ 4,345	\$ 97	\$ 102
Net Loss	\$(1,480)	\$(2,238)	\$(2,519)
Net (loss) per share, basic and fully diluted	\$ (0.033)	\$ (0.050)	\$ (0.060)
Total assets	\$ 24,682	\$ 14,139	\$ 156
Total long-term financial liabilities	\$ 18,083	\$ 1,186	-
Cash dividends declared	n/a	n/a	n/a

### 2005 Quarterly Data

As restated for Q1, Q2 and Q3	2005 Q 4	2005 Q 3	2005 Q 2	2005 Q 1
Total revenues	\$ 1,132	\$ 1,093	\$ 1,047	\$ 1,073
Cash provided (used) in operating activities	\$ 512	\$ 641	\$ 1,229	\$ (125)
Net profit / (loss)	\$ 2,136	\$ (3,098)	\$ 75	\$ (593)
Net profit/ (loss) per share, basic and fully diluted	\$ 0.047	\$ (0.069)	\$ 0.002	\$(0.013)

### 2004 Quarterly Data

	2004 Q 4	2004 Q 3	2004 Q 2	2004 Q 1
Total revenues	\$ 22	\$ 24	\$ 22	\$ 29
Cash (used) in operating activities	\$ (129)	\$ (643)	\$ (709)	\$ (685)
Net (loss)	\$ (129)	\$ (742)	\$ (683)	\$ (684)
Net (loss) per share, basic and fully diluted	\$ (0.00)	\$ (0.02)	\$ (0.02)	\$ (0.02)

## **LIQUIDITY AND CAPITAL RESOURCES**

Consolidated cash at December 31, 2005 were \$1.5 million, including \$0.4 million restricted cash. We expect to have sufficient cash flow to fund our on-going operational needs and provide sufficient resources to advance acquisition opportunities.

As a consequence of not recording the contingent Rosebel Royalty for 2006 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 a certain minimum revenue, we have adequate liquidity to meet our obligations as they become due.

We intend to seek additional acquisitions of gold mineral interests and will likely require additional capital to complete any such transaction. In addition to established cash-flow, we anticipate arranging a combination of equity and debt transactions as sources of capital. There remains no assurance we can obtain additional funding at acceptable prices.

## **HEDGING**

As required by the loan agreement from Macquarie Bank Ltd., 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 Macquarie at the end of each calendar quarter, beginning in the third quarter of 2007 until December 31, 2009.

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 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 fourth quarter was approximately 80,000 ounces. The London PM gold fix averaged \$484.20 per ounce during the fourth quarter of 2005 resulting in a derivative loss of \$361,670 in respect to gold hedging for that quarter.

We have the following derivative contracts outstanding at December 31, 2005:

	Maturity Date of Gold Forward Contracts				
	2006	2007	2008	2009	Total
Ounces Au	22,800	22,800	22,800	22,800	91,200
Average Price (US\$)	\$421	\$439.75	\$458.5	\$458.5	\$444.44

## **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>	<b>&lt; 1 Year</b>	<b>1- 3 Years</b>	<b>4- 5 Years</b>	<b>&gt; 5 Years</b>
Golden Star Resources Ltd.	7,205	3,039	0	442	3,724
Macquarie Bank Ltd.	7,666	2,666	5,000	0	0
<b>Total</b>	<b>\$ 14,871</b>	<b>\$ 5,705</b>	<b>\$ 5,000</b>	<b>\$ 442</b>	<b>\$ 3,724</b>

## **SHARE CAPITAL**

As at December 31, 2005 and the date of this report, we had 49,402,884 common shares outstanding with a par value of €0.01 per share. There were 4,400,000 new shares issued during the twelve months ending December 31, 2005.

### **Common Shares - as of December 31, 2005 and the date of this report**

Par	\$ 660
Premium	<u>45,547</u>
Total Share Capital	<u>\$ 46,207</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.

## **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.

The Rosebel Royalty acquired from Golden Star has been 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 have been reviewed by a Qualified Person who has prepared the Company's report in terms of Canadian National Instrument 43-101. Based on this report, the calculation has utilized 100% of the Proven and Probable reserves, 67% of the Indicated resources and 33% of the Inferred resources.

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.

## **CHANGE IN APPLICATION OF ACCOUNTING POLICY**

In preparing our 2005 financial statements we have changed the application of our hedge accounting policies to record mark-to-market assets and liabilities on our gold hedges against income in the period they arise.

Historically we have formally documented all relationships between the hedging instruments and hedged items with the intention of presenting our derivatives as an effective hedge and accounting for them as qualifying for hedge accounting. As a consequence of this change, we have amended and restated our quarterly results for the first 3 quarters of 2005.

## **RESTATEMENT OF 2005 QUARTERLY RESULTS**

As a consequence of the change in our hedge accounting policies, the company restated the reported financial results for the first 3 quarters of 2005.

These changes reflect non-cash charges and the financial standing on the company is unaltered. Please see "Liquidity and Capital Resources".

The principal changes to our reported financial position and results of operations are summarized below:

All amounts in thousands of US dollars, except per share amounts

<b>Results of operations:</b>	<b>First Quarter 2005</b>	
	<b>As Reported</b>	<b>As Restated</b>
Revenue - Royalties, Interest and Other	\$1,109	\$1,109
Expense - Hedge	\$36	\$36
Net Revenue	\$1,073	\$1,073
General and Administrative	\$834	\$834
Derivative – mark-to-market adjustment	\$0	\$1,242
Future Income Tax Recovery	\$0	\$410
Net Income (Loss) for the Period	\$239	(\$593)
Retained (Deficit) - Beginning of Period	(\$63,019)	(\$63,019)
Retained (Deficit) - End of Period	(\$62,780)	(\$63,612)
Net Income (Loss) Per share	\$0.005	(\$0.013)
<b>Balance Sheet:</b>		
Future Tax Asset	\$0	\$410
Derivative (Liability)	\$0	(\$1,242)

All amounts in thousands of US dollars, except per share amounts

	<b>Second Quarter 2005</b>	
<b>Results of operations:</b>	<b>As Reported</b>	<b>As Restated</b>
Revenue Royalties, Interest and Other	\$1,085	\$1,085
Expense Hedge	\$38	\$38
Net Revenue	\$1,047	\$1,047
General and Administrative	\$850	\$850
Derivative – mark-to-market adjustment	\$0	\$182
Future Income Tax Recovery	\$0	\$60
Net Income for the Period	\$197	\$75
Retained (Deficit) - Beginning of Period	(\$62,780)	(\$63,612)
Retained (Deficit) - End of Period	(\$62,583)	(\$63,537)
Net Income Per share	\$0.004	\$0.002
Net Income per share (fully diluted)	\$0.004	\$0.002

**Balance Sheet:**

Future Tax Asset	\$60
Derivative Liability	\$182

	<b>Third Quarter 2005</b>	
<b>Results of operations:</b>	<b>As Reported</b>	<b>As Restated</b>
Revenue - Royalties, Interest and Other	\$1,203	\$1,203
Expense - Hedge	\$110	\$110
Net Revenue	\$1,093	\$1,093
General and Administrative	\$840	\$840
Derivative – mark-to-market adjustment	\$0	\$5,002
Future Income Tax Recovery	\$0	\$1,651
Net Income (Loss) for the Period	\$253	(\$3,098)
Retained (Deficit) - Beginning of Period	(\$62,583)	(\$63,537)
Retained (Deficit) - End of Period	(\$62,330)	(\$66,635)
Net Income (Loss) Per share	\$0.006	(\$0.069)

**Balance Sheet:**

Future Tax Asset	\$1,651
Derivative Liability	(\$5,002)

## **RELATED PARTY TRANSACTIONS**

On January 8, 2005, EURO borrowed \$6.0 million from Macquarie and paid the full amount to Golden Star as the first installment for the Rosebel royalty which EURO purchased in December 2004. This acquisition was approved by the shareholders of EURO on 26 November 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.

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 is seeking additional funding to pay the remaining \$3.0 million loan due to Golden Star.

Golden Star continued to provide management services to EURO in terms of the Management Services Agreement previously approved by shareholders on until the termination of that agreement in June 2005. Golden Star has continued to provide certain services to EURO since that time and has charged \$5,000 per month. Payment of these amounts is outstanding and remains subject to shareholder approval.

## **DISCLOSURE CONTROLS AND PROCEDURE**

The Company has limited employees and subsidiary activities. Accordingly the Directeur-Général and Vice President Finance have reasonable assurance that material information relating to the Company and its consolidated subsidiaries are known to them.

## **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 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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