

# **EURO RESSOURCES S.A.**



**2005**

**ANNUAL REPORT TO SHAREHOLDERS**

**MANAGEMENT OF THE COMPANY**  
List of the directors and officers as of March 29, 2006

**Ian L. Boxall** <sup>2,3</sup>

Businessman

George Town, Grand Cayman, Cayman Islands

**Golden Star Resources Ltd.** <sup>1</sup>

represented by, **Peter J. Bradford**

President and CEO Golden Star Resources Ltd.

Bogoso, Ghana

**James H. Dunnett**

Directeur-Général,

EURO Ressources S.A.

George Town, Grand Cayman, Cayman Islands

**Donald R. Getty** <sup>2,3</sup>

President and Chief Executive Officer, Sunnybank Investments Ltd.

Edmonton, Alberta, Canada

**Susanne A. Hermans**

Vice-Président Finance

EURO Ressources S.A.

Littleton, Colorado, USA

**Allan J. Marter**

Président, EURO Ressources S.A.

Chief Financial Officer and Senior Vice President Golden Star Resources Ltd.

Littleton, Colorado, USA

**Jean-Pierre Prévôt** <sup>2,3</sup>

- Co-Director of Rhums Prévôt (rum distilling),

- Former President, Chamber of Commerce and Industry of French Guiana

Cayenne, French Guiana

(1) Under French corporate law, it is permissible for a company to be a director of another company including of its subsidiary. Peter Bradford, President and CEO of Golden Star, has been designated by Golden Star Resources Ltd. as its permanent representative in connection with proceedings of the directors of the Company.

(2) Member of the Compensation Committee.

(3) 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:

BNP Paribas GCT  
Emetteur assemblées  
Immeuble Tolbiac  
75450 Paris Cedex 09  
France  
Telephone: 33 1 40 14 34 24

CIBC Mellon Trust Company  
Attention: Shareholder Services  
Vancouver,  
British Columbia, V6C 3K9  
Canada  
Toll Free: 1-800-387-0825

**Auditors**

PricewaterhouseCoopers Audit  
Crystal Park  
63 rue de villiers  
92208 Neuilly-sur-Seine cedex  
France

PricewaterhouseCoopers LLP,  
Calgary, Alberta, Canada

**Co-Auditors**

S&W Associés  
8 avenue du Président Wilson  
75116 – Paris, France

**Registered Office**

EURO Ressources S.A.  
23 rue du Roule  
75001 – Paris, France

**Société anonyme** with a share capital of €490,402,884  
SIRET 390 919 082

Number of employees: 2

**Information requests should be addressed to:**

James H. Dunnett,  
Directeur-Général  
Tel: +1 604 710 2242  
Fax: +1 604 608 3283  
Email: jhdunnett@aol.com

Susanne A. Hermans,  
Vice-Président, Finance  
Tel: +1 303 904 7090  
Fax: +1 303 904 7091  
Email: shermans@euroressources.net

## FELLOW SHAREHOLDERS

2005 was a year of continuing transition for EURO Ressources S.A. ("EURO") from Guyanor Ressources S.A. with limited revenue and liquidity to a company re-named EURO Ressources S.A. with revenue, liquidity and opportunity. We have made great strides!

We reported the first profitable period for the Company when we released our results for Q1 2005. Again we reported earnings for Q2 and Q3. We have, however, amended these reported earnings to record the mark-to-market position on our derivative gold hedge position against income. This treatment means that we report a loss for the year of \$1.48 million. With the mark-to-market position excluded from income, and the related tax asset, EURO would have recorded its first annual profit.

The year began with the closing of the acquisition of the Rosebel Royalty, achieved without the dilution that a share issuance would have caused. However, we remained reliant on the financial support of Golden Star, our majority shareholder, until receipt of the first royalty payment in April, 2005. In December, 2005 we were able to arrange an equity issue with Macquarie Bank which has provided a degree of liquidity that the Company has not enjoyed in many years.

The performance of the Rosebel mine continues to impress. In 2005 Cambior achieved gold production at Rosebel of 340,000 ounces. Reported mineral reserves at 31 December 2005 represented an increase of over 30% from 2004, after the production during the year. Based on Cambior's forecast production of 335,000 ounces and the current gold price of over \$550 per ounce, EURO anticipates gross income from the Rosebel Royalty of approx. \$8 million for 2006. Against this we will settle matching maturing gold hedges for about \$3 million.

Our exploration assets in French Guiana remain subject to the Option agreement with Golden Star, however, the recent confirmation of the exploration permit on Paul Isnard provides an opportunity for renewed focus. We continue to address the most effective way to bring the Paul Isnard property as a whole to account, recognizing the current gold price.

The reorganization of 2004 had a number of legacy issues that have occupied much management time during the year. In June 2005, reflecting our new focus and independent financial resources, we took full responsibility for our accounting, which had previously been performed by Golden Star. We moved the company's registered office to Paris and engaged a recognized international firm in Paris to provide the necessary accounting support. As such we have become substantially autonomous.

Being listed in both Paris and Toronto complicates the reporting requirements for the Company but provides a diversity of shareholder support. While Paris has been our principal market during the year, Toronto remains the largest market for mining equity in the world. The substantial increase in our share price over the last 12 months and the increase in trading was recently reflected in the continuous listing status of our shares in Paris. A more liquid and efficient basis for trading our shares will provide a more attractive instrument for potential investors.

With these legacy accounting and regulatory issue largely behind us, we look to 2006 as a year with opportunity. We will do our best to realize it for EURO's shareholders!

/s/ James H. Dunnett  
James H. Dunnett  
Directeur-Général

## OVERVIEW OF EURO

During 2004, EURO completed a financial restructuring and subsequently acquired the Rosebel Royalty interest in the Rosebel gold mine in Suriname operated by Cambior Inc. The Rosebel Royalty provides a 10% participation in the gold production at Rosebel and combined with a derivative hedging program provides an assured cash-flow to the Company. EURO retains significant gold mining exploration interests in French Guiana. The Company intends to pursue the possible acquisition of additional interests in precious metal mining royalties.

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

## PROPERTY REVIEW

The mineral properties in which we had an interest (either directly or through our subsidiaries) at the beginning of 2005 consisted of the Paul Isnard properties located in French Guiana, being 8 concessions (which includes Elysée) held by SOTRAPMAG and the exploration permit held directly by EURO. Our other interests in French Guiana, namely, Yaou and Dorlin were sold in 2004.

### PAUL ISNARD

On October 29, 1994, we acquired an interest in the Paul Isnard exploration projects by way of the acquisition of all of the outstanding shares of Société de Travaux Publics et de Mines Aurifères en Guyane ("SOTRAPMAG"). SOTRAPMAG holds eight mineral concessions at Paul Isnard which will expire on December 31, 2018 but which can be renewed for an additional 25 years. Total area of the eight concessions is 150 square kilometers.

We also have one Exclusive Exploration Permit at Paul Isnard, which was granted to us on November 30, 1999 for an initial period of three years, covering an area of approximately 283 square kilometers. Its first validity period expired on December 1, 2002. An application for renewal for a five-year period and reduced surface area (199 square kilometers) was sent to the French Administration on July 30, 2002. The application was revised in late 2005 to cover a further reduced surface area of 140 square kilometers which was approved by the Ministry of Industry in February 2006. This permit is valid until November 2007.

Paul Isnard is located in the western part of French Guiana, some 180 kilometers west of Cayenne. The property is accessible by air or, by surface, from Saint-Laurent-du-Maroni by means of a 115 kilometer lateritic road. The first 62 kilometer section of this road is maintained by the State and the remaining 53 kilometer section by SOTRAPMAG.

### *Work Program*

During 2004, EURO entered into an Option Agreement with Golden Star in respect to Paul Isnard allowing Golden Star to undertake a work program which may result in it earning an ownership position in this property. Golden Star agreed to assume responsibility for all Paul Isnard property costs as long as it maintains the Option Agreement.

In terms of the Option Agreement, Golden Star is required to spend \$2 million to earn its initial 50% interest. Golden Star has informed us that it plans to spend approximately \$0.25 million on Paul Isnard during 2006, continuing their review of past work and development of new areas of interest for future exploration activities.

Prior to the Option Agreement and other than required minimal care and maintenance costs, there was no project spending during 2004. Property holding and maintenance costs were expensed as general and administrative costs or as exploration costs. There were no deferred acquisition, exploration and development costs capitalized as of December 31, 2005.

There has been a significant amount of illegal mining in French Guiana including operations on our properties. It is impossible to determine the exact amount of gold removed by the illegal miners. Local legal authorities are continuing to address the situation. There have been reported incidences of violence, which have complicated the authorities' efforts.

#### *Exploitation*

EURO entered into a farmout agreement in 2003 with COMPAGNIE DE TRAVAUX MINIERES DE GUYANE SARL (Cotmig) in terms of which Cotmig may exploit alluvial and par alluvial deposits within the Paul Isnard concessions. The operating permit limits these activities to 100 tonnes of ore per day. Cotmig pays a royalty of 4% of the net proceeds of gold production which royalty amounted to approx \$0.1 million in 2005. Cotmig's operations are presently focussed on Elysée.

### **ROSEBEL ROYALTY - MINERAL RESOURCES**

As at December 31, 2005 the reserve and resource components of the Rosebel gold mine mineral inventory disclosed by Cambior have been reviewed by a Qualified Person who has prepared a report for EURO in terms of Canadian National Instrument 43-101. These demonstrate a significant increase in the various categories and are stated as:

<b>Mineral Inventory category</b>	<b>Contained oz Au December 31, 2005</b>	<b>Contained oz Au December 31, 2004</b>	<b>% Increase</b>
Proven and Probable	3,212,000	2,459,000	30.6%
Indicated	1,885,000	1,176,000	60.3%
Inferred	2,194,000	1,147,000	91.3%

More information regarding the resource calculation can be found at [www.Cambior.com](http://www.Cambior.com)

## **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

	2005 Q 4	2005 Q 3	2005 Q 2	2005 Q 1
As restated for Q1, Q2 and Q3				
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:

James H. Dunnett,  
Directeur-Général  
Tel: +1 604 710 2242  
Fax: +1 604 608 3283  
Email : [jhdunnett@aol.com](mailto:jhdunnett@aol.com)

Susanne A. Hermans,  
Vice-Président, Finance  
Tel: +1 303 904 7090  
Fax: +1 303 904 7091  
Email: [shermans@euroressources.net](mailto:shermans@euroressources.net)

March 29, 2006

## **Auditors' Report**

### **To the Shareholders of EURO Ressources S.A.**

We have audited the consolidated balance sheets of **EURO Ressources S.A.** as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

Calgary, Alberta

**EURO RESSOURCES S.A.**  
**CONSOLIDATED BALANCE SHEETS**  
(Stated in thousands of United States dollars)

	As of December 31, 2005	As of December 31, 2004
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,056	\$ 1
Restricted Cash (Note 6)	417	-
Accounts receivable (net of doubtful accounts)	47	68
Due from Golden Star Resources Ltd. (Note 3)	-	497
Rosebel Royalty due from Cambior Inc.(Note 4)	1,454	-
Future Tax Asset – Short Term (Note 12)	588	-
Other current assets	38	2
Total Current Assets	3,600	568
<b>LONG TERM ASSETS</b>		
Rosebel Royalty (Note 4) net of depletion	13,988	13,553
Deferred financing costs net of amortisation	143	-
Property, plant and equipment net of depreciation	7	18
Future Tax Asset – Long Term (Note 12)	6,944	
Total Assets	\$ 24,682	\$ 14,139
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 811	\$ 654
Liquidated Derivative liabilities	362	-
Current portion of Long Term Debt (Note 6)	2,842	-
Due to Golden Star Resources Ltd. (Notes 3 and 6)	39	12,366
Total Current Liabilities	4,054	13,020
<b>LONG-TERM LIABILITIES</b>		
Long Term Debt (Note 6)	5,000	-
Fair value of Derivatives (Note 5)	9,560	-
Due to Golden Star Resources Ltd. (Notes 3 and 6)	6,523	1,186
Total Liabilities	25,137	14,206
<b>SHAREHOLDERS' FUNDS</b>		
Share Capital (Note 7)	46,207	45,498
Contributed surplus	17,739	17,443
Contributed surplus – stock based compensation and warrants	98	11
Deficit	(64,499)	(63,019)
Total Shareholders' Deficit	(455)	(67)
Total Liabilities and Shareholders' Funds	\$ 24,682	\$ 14,139

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

**Approved by the Board:**

By: /s/ James H. Dunnett  
Directeur-Général

By: /s/ Donald R. Getty  
Director



**EURO RESSOURCES S.A.****CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

(Stated in thousands of United States dollars, except for share amounts)

	For the Years Ended December 31,	
	2005	2004
<b>REVENUES</b>		
Royalties, and other	\$ 4,891	\$ 97
Hedging	(546)	-
Net Revenue	\$ 4,345	\$ 97
<b>EXPENSES</b>		
General and administrative expenses	1,349	1,307
Depreciation, Depletion and Amortization -		
Property, plant and equipment	11	15
Rosebel Royalty	1,364	-
Deferred financing costs	48	-
Derivative loss – mark-to-market adjustment (Note 5)	9,560	-
Debt Accretion	537	-
Interest (Note 3 and 6)	472	824
Exploration	-	150
Foreign exchange loss	16	39
Total Expenses	13,357	2,335
<b>Loss Before Taxes</b>	\$ (9,012)	\$ (2,238)
Future Income Tax Recovery	7,532	-
<b>NET LOSS</b>	\$ (1,480)	\$ (2,238)
<b>DEFICIT – BEGINNING OF YEAR</b>	(63,019)	(60,781)
<b>DEFICIT – END OF YEAR</b>	\$(64,499)	\$(63,019)
<b>NET LOSS PER SHARE – Basic and diluted (Note 11)</b>	\$ (0.033)	\$ (0.056)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b> (in millions of shares)	45.4	45.0

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

**EURO RESSOURCES S.A.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Stated in thousands of United States dollars)

	For the Years Ended December 31,	
	2005	2004
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,480)	\$ (2,238)
<b>Reconciliation of net loss to net cash used in operations:</b>		
Depreciation, property, plant and equipment	11	15
Depletion of Rosebel Royalty	1,364	-
Amortization of deferred financing costs	48	-
Debt Accretion due Golden Star (Note 6)	537	11
Stock Based Compensation (Note 9)	27	-
Future Tax Recovery (Note 13)	(7,531)	-
Mark-to-market derivative adjustment (Note 5)	9,560	-
	2,536	(2,212)
<b>Changes in Assets and Liabilities</b>		
Accounts Receivable	(15)	-
Rosebel Royalty due from Cambior, Inc.	(1,454)	-
Due from Golden Star Resources Ltd.	497	-
Accounts Payable and accrued liabilities	157	-
Liquidated Derivative Payable	362	-
Increase in interest payable	175	481
Net cash provided (used) in operating activities	2,257	(1,731)
<b>INVESTING ACTIVITIES:</b>		
Purchase of Rosebel Royalty	-	(367)
Net cash used in investing activities	-	(367)
<b>FINANCING ACTIVITIES:</b>		
Bank Loan	9,000	-
Bank Loan – Repayments	(1,333)	-
Deferred financing costs	(191)	-
Issuance of Common Stock (Note 7)	924	-
Issuance of Warrants (Note 8)	52	-
Exercise of Stock Options	90	-
Increase in amount due to Golden Star Resources Ltd	-	(497)
Increase/ (Decrease) in amounts due to Golden Star Resources Ltd	(9,327)	2,582
Net cash provided (used) by financing activities	(785)	2,085
<b>Increase (Decrease) in cash</b>	1,472	(13)
<b>Cash – beginning of year</b>	1	14
<b>Cash at end of year consists of - cash</b>	1,056	1
<b>- restricted cash</b>	417	-
<b>Cash - end of year (Note 6)</b>	\$ 1,473	\$ 1

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

## **EURO RESSOURCES S.A.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

(Currency amounts are stated in United States dollars unless otherwise expressed)

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#### **1. Summary of Significant Accounting Policies**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. We have adopted the following accounting policies.

##### ***Basis of Consolidation***

The consolidated financial statements include the accounts of EURO Ressources S.A. ("EURO") and its 100% owned subsidiary, Société de Travaux Publics et de Mines Aurifères en Guyane Sarl ("SOTRAPMAG"). All inter-company balances and transactions have been eliminated.

##### ***Cash***

Cash consists primarily of restricted cash (Note 6) and chequing account balances.

##### ***Interest Costs***

Interest costs are charged to expense as incurred.

##### ***Mineral Properties and Deferred Exploration***

Acquisition, exploration and development costs of mineral properties are capitalized.

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.

##### ***Rosebel Royalty***

The Gross Rosebel Participation Right (the "Rosebel Royalty") acquired from Golden Star Resources Ltd. ("Golden Star") has been capitalized as the net present value of the estimated future consideration to be paid to Golden Star, calculated at an annual discount rate of 12% equal to 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.

##### ***Amortization and Depletion***

In determining the Amortization and Depletion to be applied to the Rosebel Royalty during any financial period, the net book value of the asset will be amortized on a unit of production basis, having regard to the production at the Rosebel gold mine, payable in terms of the Participation right, and the resources and reserves used in computing the acquisition value.

### ***Hedges and Derivatives***

We record the mark-to-market assets and liabilities on our derivative gold hedges against income in the period they arise.

### ***Property, Plant and Equipment***

Fixed assets are stated at cost. Depreciation is computed using the straight-line method at rates calculated to amortize the cost of the assets less their residual values over their estimated useful lives.

### ***Foreign Currency Translation***

As our functional currency is the United States dollar, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the end of the period. Non-monetary assets and long term liabilities are translated at the rates of exchange prevailing when the assets were acquired or the liabilities assumed. Revenue and expense items are translated at the average rate of exchange during the year.

Translation gains or losses are included in the determination of net income for the period. The accounts of subsidiaries are translated using the same method.

### ***Income Taxes***

Future tax assets are estimated future tax consequences of transactions and events recognized in the financial statements of the current and previous periods.

Future tax arises when the actual tax consequence of a particular transaction (tax payable or recoverable) arises in a different period from the period in which the transaction itself is included in the financial statements.

EURO recognizes future tax assets and liabilities based on the difference between the financial reporting and tax basis of assets and liabilities using the enacted tax rates expected to be in effect when the taxes are paid or recovered. We provide a valuation allowance against future tax assets for which we do not consider realization of such assets to meet the required “more likely than not” standard.

### ***Use of Estimates***

Preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that can affect reported amounts of assets, liabilities, revenues and expenses. The more significant areas requiring the use of estimates include asset impairments, stock based compensation, depreciation, depletion and amortization of assets.

Accounting for these areas is subject to estimates and assumptions regarding, among other things, gold reserves, gold recoveries, future gold prices, future operating costs, asset usage rates, and future mining activities. Management bases its estimates on historical experience and on other assumptions we believe to be reasonable under the circumstances. However, actual results may differ from our estimates.

### ***Measurement Uncertainty***

The nature of the Company's income is subject to uncertainties relating to the production levels at the Rosebel Gold mine and to the price of gold. Since the Company is not the operator of the Rosebel Gold mine and has no influence over those operations, it is entirely reliant on the performance of the mine operator, controlled by Cambior Inc. Historically, the operational performance of the Rosebel Gold mine has not varied substantially by calendar quarter in 2005.

The price of gold is subject to change. It trades in an international market subject to many influences, none of them within the control of the Company. Historically the price of gold has varied considerably.

### ***Stock Based Compensation***

In accordance with the requirements of CICA Handbook Section 3870, "Stock Based Compensation and other Stock-based Payments" we use the fair value method to expense the fair value of options granted to employees and directors. The fair value of options granted is established at the date of the grant, using the Black-Scholes option-pricing model. Compensation expense for options with immediate vesting is recognized in the period of the grant. Compensation expense for options with graded vesting is recognized on a straight line basis over the vesting periods.

### ***Net Loss per Share***

Basic loss per share is calculated by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The calculation of diluted income per common share uses the treasury stock method to compute the dilutive effects of stock options.

### ***Fair Value of Financial Instruments***

The Company's financial instruments are comprised of cash, accounts receivable, accounts payable and accrued liabilities and amounts due to and from Golden Star. The fair value of cash, accounts receivable, amounts receivable from Cambior under the Rosebel Royalty, accounts payable and accrued liabilities equals their carrying value due to the short-term nature of these items. The value of the long term amounts owed to Golden Star represents the present value of contingent additional future payments for the royalty purchase, such payments being due upon ounces produced at the Rosebel mine in excess of the first 2.0 million ounces.

## **2. Formation and Description of Our Business**

EURO was incorporated as Guyanor Ressources SA under the laws of France on April 20, 1993. The Company is a subsidiary of Golden Star Resources Ltd. which currently owns approximately 52.6% of the Company's outstanding common shares. The Company's shares are publicly traded with our common shares listed on both the Toronto Stock Exchange and on Euronext in Paris, France, under the symbol "EUR".

From the Company's inception until late 2004, the Company was primarily focused on exploration for gold and diamonds in French Guiana. During 2004, the Company's shareholders approved a financial restructuring that included the forgiveness of the then existing debt owed to Golden Star. The shareholders also approved the acquisition of the Rosebel Royalty from Golden Star and income from the Rosebel Royalty accrued to the Company with effect from the beginning of 2005.

The Company intends to focus on the acquisition of similar royalty interests in operating gold mines.

Since April 2005, the cashflow from the Rosebel Royalty has provided adequate resources for the Company's operations and debt servicing. Previously, the Company's principal source of funding had been through public equity offerings and loans from Golden Star.

On June 23, 2005, the Company's name was changed to EURO Ressources S.A. and its registered office relocated to Paris, France.

### **3. Due to and from Golden Star Resources Ltd.**

These amounts largely represent outstanding amounts of principal and interest directly related to the acquisition of the Rosebel Royalty. Historically, the amounts due to Golden Star represented general and operating costs incurred by Golden Star on EURO's behalf, not yet reimbursed at balance sheet date. During the second quarter of 2005, we reimbursed Golden Star for substantially all of the general and operating costs advanced to that date and no further advances of this nature have been made since that time.

At the end of the third quarter 2005, EURO paid Golden Star \$3 million of the \$6 million loan then outstanding and revised the loan terms. Interest 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 applied at 12% p.a., thereafter and a 3% facility fee levied if the loan is not repaid in full by 31<sup>st</sup> January, 2006 (see Note 14). During the term of the loan from Macquarie Bank Limited. ("Macquarie") (see Note 6), repayment of principal amounts due to Golden Star may only be made from funds other than those arising from the Rosebel Royalty.

### **4. Rosebel Royalty Acquisition**

In December 2004, we purchased the Rosebel Royalty from Golden Star and recorded an acquisition cost of \$13.2 million: we incurred an additional \$0.4 million of other related costs. As a result of this purchase, as at December 31, 2004, we recorded a current liability for the Rosebel Royalty of \$12.0 million and a long term liability of \$1.2 million, both payable to Golden Star. The Rosebel Royalty arose from Golden Star's sale to Cambior Inc. of its shares in the Rosebel gold mine: the Rosebel Royalty is part of the purchase consideration payable by Cambior.

The Rosebel Royalty applies to the first 7 million ounces of attributable production from the Rosebel mine. Attributable gold production in 2004 was 277,000 oz. and 332,000 oz. in 2005.

The Rosebel Royalty requires Cambior Inc. to make quarterly payments equal to the product of (1) 10% of the amount by which the quarterly gold price exceeds a base gold price and (2) the attributable gold production from the Rosebel mine. The base price is set at \$300 per ounce for gold produced from "soft and transitional" rock and at \$350 per ounce for gold from "hard" rock. Attributable gold production is calculated after deducting a 2% royalty payable to the Government of Suriname.

Acquisition of the Rosebel Royalty from Golden Star, required the payment of \$12 million (see Note 3). Additional payments will be made to Golden Star if cumulative attributable production exceeds 2 million ounces. For attributable production over 2 million ounces, up to 4 million ounces, the additional payment will be equal to the lesser of the amount received from Cambior and \$2.50 per ounce. For additional attributable production up to the balance of the 7 million

ounces, the additional payment will be equal to the lesser of the amount received from Cambior and \$5.00 per ounce.

As at 31 December, 2005 we increased the carrying value of the Rosebel Royalty and long term portion of the contingent payable to Golden star by \$1.8 million to reflect the updated mineral inventory. The present value of these contingent payments is reflected as a Long term Liability to Golden Star of \$3.52 million (2004: \$1.19 million).

## **5. Hedges and Derivatives**

In January 2005, we entered into a gold derivative position as part of a \$6 million loan agreement with Macquarie (see Note 6). At that date, EURO entered into a forward gold sale derivative contract for 57,000 ounces at a fixed price of \$421 over a period of ten quarters.

During the third quarter, we entered into an amended credit facility with Macquarie in terms of which Macquarie advanced for a further tranche of \$3 million (see Note 6). In support of this increased indebtedness, we entered into additional gold forward derivative contracts for 57,000 ounces at a fixed price of \$458.50 with maturities over 10 consecutive calendar quarters commencing 1<sup>st</sup> July 2007 through 31<sup>st</sup> December 2009. Settlement occurs at the end of the month following the calendar quarter: the method of calculation of the hedge gain/loss replicates the pricing formula used in the Rosebel Royalty.

As at 31<sup>st</sup> December, 2005, the gold forward derivative contract on the outstanding derivative contracts of 91,200 ounces had a negative mark-to-market of \$9.56 million. EURO has not applied hedge accounting for this derivative loss and derivative mark-to-market assets and liabilities are recorded in income in the period they arise.

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

## **6. Long Term Debt**

In January 2005, EURO drew down \$6.0 million under a credit facility from Macquarie repayable in nine equal payments of \$666,667 beginning July 29, 2005 and quarterly thereafter. The interest rate is set at 2.5% over LIBOR, payable at the end of each 1, 2 or 3 month period as EURO may choose. As at 31 December 2005, the interest rate and maturity of each amount was as follows:

Amount	Maturity date	Interest rate
\$4,666,667	29 January 2006	6.40%
\$3,000,000	31 March 2006	6.70%

The loan is collateralized by all of the Company's assets, including the Rosebel royalty. The lender has full security over proceeds of the Rosebel Royalty and distributions by the Company are restricted by the covenants of the loan.

On 29<sup>th</sup> September 2005, EURO drew an additional \$3 million under a revised facility with Macquarie: the additional principal is repayable in 5 equal quarterly installments of \$600,000 each commencing October of 2007. The interest rate remains unchanged: a facility fee of \$45,000 was paid to the bank in respect to this additional facility.

Rosebel Royalty payments made by Cambior, Inc. are paid to a proceeds account maintained with Macquarie. These funds are restricted to use for general corporate working capital purposes and totaled \$417,000 as at 31 December 2005..

## **7. Share Capital**

At 31<sup>st</sup> December, 2005 we had 49,402,884 (2004: 45,002,884) common shares outstanding with a par value of € 0.01 per share.

On 28<sup>th</sup> September 2005, notice of exercise was made to the Company in respect to 400,000 options granted to an ex-employee in terms of the Company's Stock Option Plan. The consideration for these shares was € 74,395 (\$89,385) representing € 4,000 (\$5,000) par value and € 70,395 (\$84,585) premium.

On 20<sup>th</sup> December, 2005, following shareholder approval granted on 8<sup>th</sup> December, 2005, EURO issued 4,000,000 shares to Macquarie Bank Limited as a result of a subscription agreement entered into with them. The consideration for these shares was € 800,000 (\$961,360) representing € 40,000 (\$48,068) par value and € 760,000(\$913,292) premium.

There were no other shares issued during 2005 and none in 2004.

Common Shares	As at December 31, 2005		As at December 31, 2004	
Par	€ 494	\$ 660	€ 450	\$ 607
Premium	<u>45,345</u>	<u>45,547</u>	<u>44,553</u>	<u>44,891</u>
Total Share Capital	<u>€ 45,839</u>	<u>\$ 46,207</u>	<u>€ 45,002</u>	<u>\$ 45,498</u>

## **8. Warrants**

On 20<sup>th</sup> December 2005 EURO issued 1,000,000 warrants to purchase an equal number of Common Shares of EURO to Macquarie Bank Limited as a result of the subscription agreement entered into with them. The consideration for these was € 50,000 (\$60,085) representing € 0.05 per warrant.

# Warrants	Exercisable from	Warrants outstanding	Exercise Price	Term (years)	Expiration Date
500,000	20 December 2005	500,000	€ 0.45 (US\$0.53)	2	20 December 2007
500,000	20 December 2006	500,000	€ 0.45 (US\$0.53)	1	20 December 2007

The fair value of the Warrants was established with a Black Scholes model using € 0.45 (\$0.53) strike price, a 30% expected volatility, a 3.2% risk-free interest rate, a two year expected warrant life and 0% dividend yield.



## **9. Stock Based Compensation**

Under the EURO Ressources S.A. Stock Option Plan (the “Plan”), EURO may grant options to its employees for up to 4,367,889 common shares. An option’s term is ten years. The options may take the form of non-qualified stock options, the exercise price of each option shall not be less than:

- (i) the equivalent price in Euro (€) of the Canadian dollar (C\$) amount equal to the closing price of the shares on the Toronto Stock Exchange on the trading day immediately prior to the day the option is granted and
- (ii) 80% of the average closing price on the Euronext, of the Bourse de Paris during the 20 consecutive trading days immediately preceding the date of grant of the option .

Options under the Plan are granted from time to time at the discretion of the Board of Directors and vest over periods ranging from immediately to three years.

There were 400,000 options granted during the first quarter of 2005 at a strike price of €0.24.81 (C\$0.40), all of which vested immediately. EURO recognized stock option expenses of \$27,000 for the first quarter of 2005. There were no options granted during the remainder of 2005. The fair value of the new grants in 2005 was established with a Black-Scholes model using a 40% expected volatility, a 3.2015% risk-free interest rate, a five year expected option life and 0% dividend yield.

There were 100,000 options granted during 2004, all of which vested immediately. The stock option expense recognized was \$11,000 for 2004. The fair value of the new grants was established with a Black Scholes model using € 0.1723 (C\$0.28) strike price, a 20% expected volatility, a 3.63% risk-free interest rate, a five year expected option life and 0% dividend yield.

	Options (000)	Wtd. Average Exercise Price	US \$ Equivalent
Outstanding at December 31, 2004	1,027	€ 0.82	US\$1.01
Granted	400	€ 0.27	US\$0.30
Exercised	(400)	€ 0.19	US\$0.23
Forfeited	(340)	€ 1.23	US\$1.54
Options outstanding and exercisable at December 31, 2005	687	€ 0.49	US\$0.69

## **10. Mineral Properties and Deferred Exploration**

The mineral properties in which we have an interest (either directly or through our subsidiaries) consist of the Paul Isnard properties located in French Guiana. Our interests in the properties are held in the form of exploration permits, concessions, joint venture agreements and property purchase agreements. During 2004, the exploration rights to our Paul Isnard property were optioned to Golden Star in an earn-in agreement over 100% of the 290 square kilometer property. The principal elements of the agreement are:

- Golden Star can earn a 50% interest in Paul Isnard by making three annual payments of \$0.5 million to us and by spending a total of at least \$2.0 million on exploration activities during the three year period ended September 23, 2007. The first of Golden Star’s three \$0.5 million annual Paul Isnard earn-in payments was made in 2004.

- Golden Star can earn up to a 70% interest in the Paul Isnard property by delivering a feasibility study and paying an additional \$3.5 million to us within three years of the Option Agreement dated September 23, 2004.
- If Golden Star decides within five years of the September 23, 2004 date of the Option Agreement to proceed with development of the Paul Isnard property, it can purchase the remaining interest of EURO by making a payment of \$5 million and paying a net smelter return royalty
- The Net Smelter royalty applies to the first 2,000,000 ounces of Paul Isnard gold production. The royalty is set at nil if gold prices are below \$325 per ounce, 1% if gold prices are greater than \$375 per ounces but less than \$425 per ounce and 1.5% if gold prices equal or exceed \$425 per ounce.

EURO entered into a farmout agreement in 2003 with COMPAGNIE DE TRAVAUX MINIERES DE GUYANE SARL (Cotmig) in terms of which Cotmig may exploit alluvial and par alluvial deposits within the Paul Isnard concessions. The operating permit limits these activities to 100 tonnes of ore per day. Cotmig pays a royalty of 4% of the net proceeds of gold production which royalty amounted to approx \$0.1 million in 2005.

#### **11. (Loss) per Common Share**

The following table reconciles basic and diluted losses per common share:

	Twelve months ended	
	December 31	December 31
	<u>2005</u>	<u>2004</u>
Net loss	<u>\$ (1,480)</u>	<u>\$ (2,238)</u>
Share information in millions of shares		
Weighted average number of common shares	45.3	45.0
Dilutive Securities:		
Options and Warrants	<u>0.1</u>	<u>-</u>
Weighted average number of dilutive common shares	<u>45.4</u>	<u>45.0</u>
Basic and diluted Loss Per Share	\$ (0.033)	\$ (0.050)

#### **12. Income Tax**

EURO recognizes future tax assets and liabilities based on the difference between financial reporting and tax bases of assets and liabilities using the enacted tax rates expected to be in effect when the taxes are paid or recovered. EURO provide a valuation allowance against future tax assets for which EURO does not consider realization of such assets to meet the required “more likely than not” standard.

EURO's future tax assets and liabilities include the following components:

In thousands US Dollars	31 December 2005	31 December 2004
Non-capital loss carryovers	\$ 4,318	\$ 5,393
Capital loss carryovers	\$ 5,275	\$ 6,091
Derivatives	\$ 3,186	-
Valuation allowance	\$ (5,275)	\$ (11,484)
<b>Future Tax Assets</b>	<b>\$ 7,504</b>	<b>-</b>

During 2005, EURO released \$4.318 of valuation allowance related to EURO's net future tax assets. The release of the valuation allowance is related to projected future income.

A reconciliation of expected income tax on net income at statutory rates with the actual expense (recovery) for income taxes is as follows:

In thousands US Dollars	31 December 2005	31 December 2004
Net income (loss)	(\$9,012)	(\$2,238)
Statutory Tax Rate	0.3333	0.3333
Tax Expense (recovery) at statutory rate	\$(3,004)	\$ (746)
Non deductible expenses	\$ 179	-
Loss carryover not previously recognized	\$ (361)	-
Change in valuation allowance	\$ (4,318)	\$ 746
Income Tax expense (recovery)	\$ (7,504)	-

At December 31, 2005, EURO had loss carryovers expiring as follows (in thousands):

Indefinite	\$9,593
Total	\$9,593

### **13. Related Party Transactions**

Consequent on Golden Star's ownership of 52.6% of the common shares of EURO, transactions between Golden Star and EURO are 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.

#### **14. Subsequent Events**

EURO did not repay the remaining debt owing to Golden Star by 31<sup>st</sup> January 2006 and consequently the 3% Facility Fee, as described in Note 3 has become payable.