

GOLDEN STAR RESOURCES – AN UPDATE

By Adrian Douglas

The last time I wrote about Golden Star Resources is almost a year ago. I was very supportive of this company and wrote several articles which were posted at the Café. The articles are referenced here below.

Golden Star Resources Straight Talk

<http://www.lemetropolecafe.com/Pfv1.cfm?pfvID=5053&SearchParam=golden%20star>

Exposing the Short Sellers Manipulating Golden Star Resources

<http://www.lemetropolecafe.com/Pfv1.cfm?pfvID=5170&SearchParam=golden%20star>

The Turning Tide At Golden Star Resources

<http://www.lemetropolecafe.com/Pfv1.cfm?pfvID=5192&SearchParam=golden%20star>

Putting the “Star” Back in Golden Star Resources

<http://www.lemetropolecafe.com/Pfv1.cfm?pfvID=5320&SearchParam=golden%20star>

I know a lot of café members follow my writings and may have wondered why I had not written anything in the last year about GSS so I thought an update might be well received.

As my previous articles have elucidated I have always considered the fundamentals of Golden Star to be outstanding. They have a resource base of over 10 million ozs of gold in their Ghana property and the potential to prove up a lot more quite easily. When GSS acquired the property from Billiton the easy pickings of the near surface oxides had a very limited mining life remaining, but there was huge potential in the underlying sulfides. But the extraction of gold from the sulfides had proven to be extremely challenging. GSS were certain they could solve the problem by using a BIOXX process which employs microbes to remove the sulfides instead of traditional heat treatments that had failed in tests previously attempted on the ore by Billiton. The prize of success was to have access to very large unexploited gold sulfide resources and to be able to ramp up production to around 500,000 ozs of gold per year.

GSS was a speculative investment which was betting on the ability of the GSS team to solve all the technical challenges of a relatively new and difficult process.

Many investors shared my confidence that GSS were up to the challenge.

GSS management then made a series of errors that made them lose the confidence of many investors. First of all they made a failed attempt to takeover IAMGOLD. Many investors questioned why a junior with such fabulous resource potential needed to make an acquisition. It made people wonder if this wasn't a tacit admission that they couldn't deliver on the promised expansion on their own property. It was not the case, but shareholders sold the stock anyway. After failing in the IAMGOLD takeover, GSS management didn't get the message from

a falling stock price that shareholders didn't want to see the company make any acquisitions, and they promptly made an acquisition of St Jude! The Ghanaian properties of St Jude did have significant synergy for GSS but shareholders were in no mood to take note.

The final straw that broke the camel's back was that GSS decided to hedge part of their production by buying puts at \$400/oz. The cash to buy the puts was raised by selling call options at \$525/oz which meant that upto 17% of their production would be sold at \$525/oz up to March 2007. Even their staunchest supporters and shareholders at this point threw in the towel!

I had many testy e-mail exchanges with their CFO at the time, Allan Marter. He arrogantly defended this action but eventually GSS announced that they would close their hedge and I managed to extract a commitment from Allan Marter in writing which was

QUOTE

"I think it is accurate to say that we do not intend to hedge our gold in the future – ever." – Allan Marter CFO, Golden Star Resources, April 4, 2006

END

Allan Marter is no longer with GSS and in my opinion that is a big positive for the company!

I always thought that the growth story of GSS was a compelling one and that the fundamentals of the company were outstanding. Later in 2006, however, I reduced my holding in GSS, not because I thought any less of the potential of GSS but because I saw greater potential elsewhere, and I was frustrated dealing with someone like Allan Marter who didn't seem to share my view that the company belongs to the shareholders, not the management team.

Many café members will be aware of the fairly recent development of my proprietary analysis indicators of Kinetic and Potential energy. In figure 1 the energy chart for GSS is presented.

The upper part of the chart shows the price from 2002 to 2007, while in the lower window the kinetic energy is in green and the potential energy is in blue.

Had this analysis been available much earlier it would have provided an extremely useful supplement to the fundamentals. The energies were only synchronously moving up from mid 2002 to the end of 2003. This would have indicated an entry point shown by the green arrow of \$0.8 per share and exit point of \$8/share indicated by the red arrow where the energies started synchronously moving down yielding a 1000% gain.

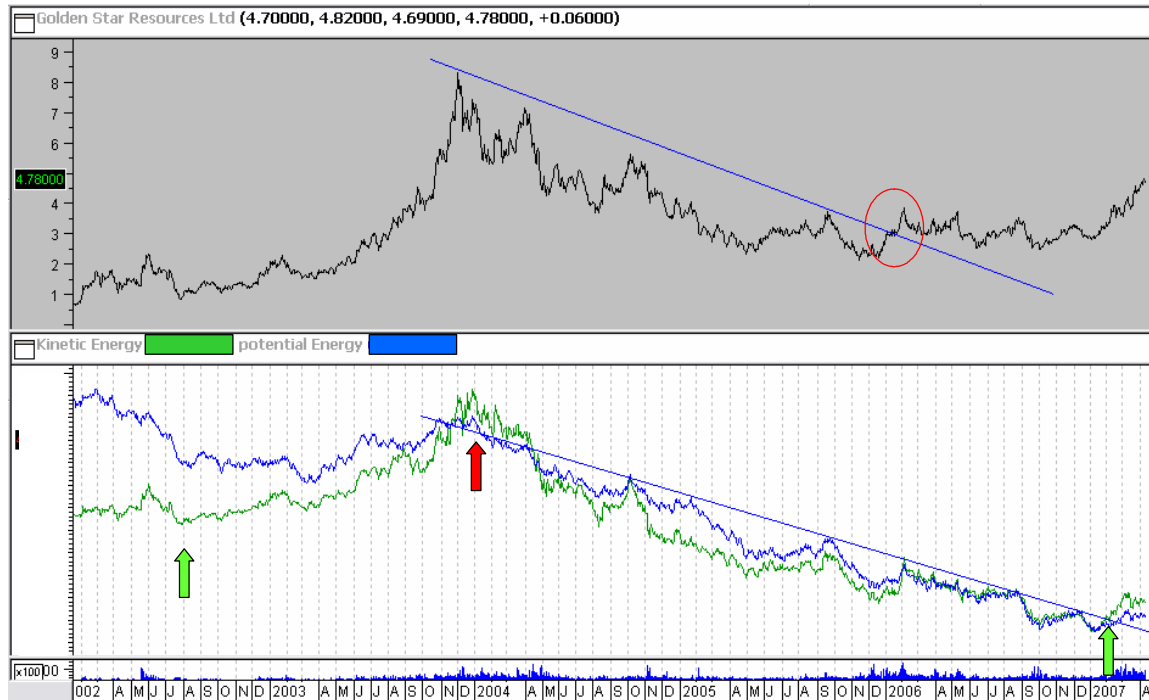


Figure 1

The fortunes of GSS have recently improved particularly with the successful startup of their BIOXX circuit and the end of their ill-advised hedging. The stock price broke out of its down trend in early 2006 (see red circle) but anyone buying on that signal would have seen the stock price trend sideward for almost one year. The energies only broke their downtrend at the beginning of 2007 and are now moving synchronously upward which predicted the entry point (second green arrow) for the start of a strong upleg for this stock.

The fundamentals of this stock have always been excellent but the new energy analysis is indicating that the stock price performance will once again start to reflect them.

Among the juniors my top picks currently are still ECU Silver Mining and SAMEX, but long term Golden Star investors will be pleased to see that the prospects for this stock based on my new analysis and the fundamentals are looking very attractive.

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[Golden Star trades under the ticker GSS on the AMEX and GSC.TO in Canada.
GSS closed at US\$4.78 April 12, 2007]