

2013 ANNUAL REPORT

# FINANCIAL STATEMENTS

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## For The Twelve Months Ended December 31, 2013 and 2012

*This Management's Discussion and Analysis ("MD&A") provides a discussion and analysis of the financial conditions and results of operations to enable a reader to assess material changes in the financial condition and results of operations as at and for the twelve months ended December 31, 2013 and 2012. The MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto ("Statements") of Teranga Gold Corporation ("Teranga" or the "Company") as at and for the twelve months ended December 31, 2013 and 2012. The Company's Statements and MD&A are presented in United States dollars, unless otherwise specified, and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Additional information about Teranga, including the Company's Annual Information Form for the twelve months ended December 31, 2012, as well as all other public filings, is available on the Company's website at [www.terangagold.com](http://www.terangagold.com) and on the SEDAR website ([www.sedar.com](http://www.sedar.com)).*

*This report is dated as of February 20, 2014. All references to the Company include its subsidiaries unless the context requires otherwise.*

*The MD&A contains references to Teranga using the words "we", "us", "our" and similar words and the reader is referred to using the words "you", "your" and similar words.*

## OVERVIEW OF THE BUSINESS

Teranga is a Canadian-based gold company which operates the Sabodala gold mine and is currently exploring 9 exploration licenses covering 1,055km<sup>2</sup> in Senegal, comprising the Regional Land Package, surrounding the Sabodala gold mine.

On October 4, 2013, Teranga completed the acquisition of Oromin Exploration Ltd. ("Oromin"). Oromin held a 43.5 percent participating interest in the Oromin Joint Venture Group ("OJVG"). The OJVG held a 90 percent interest in Societe des Mines de Golouma S.A. ("Somigol"), an operating company under the laws of Senegal, and the remaining 10 percent interest is held by the Government of Senegal.

On January 15, 2014, the Company acquired the balance of the OJVG that it did not already own. The Company acquired Bendon International Ltd. ("Bendon") 43.5 percent

participating interest and Badr Investment Ltd. ("Badr") 13 percent carried interest.

The acquisition of Bendon and Badr's interests in the OJVG increased Teranga's ownership to 100 percent and consolidates the Sabodala region, increasing the size of Teranga's land holding from 33km<sup>2</sup> to 246km<sup>2</sup> by combining the two permitted Mine Licenses and more than doubling the Company's reserve base.

The OJVG held a 15-year renewable mining lease in respect of the Golouma Gold Concession, which is located contiguous to the Sabodala Mine License. This transaction provides for capital and operating cost synergies as the OJVG satellite deposits are integrated into Sabodala's mine plan, utilizing the Sabodala mill and related infrastructure.

Management believes that the combination of the Sabodala gold mine and mill and its Regional Land Package, combined with the OJVG, all within trucking distance to the Sabodala mill, provides the basis for annual production of about 250,000 ounces per year at low all-in sustaining costs that will enable Teranga to generate positive free cash flows. The Company has significant potential to add profitable ounces to its production profile in Senegal, a politically stable and mining-friendly jurisdiction.

**Our Mission** is to share the benefits of responsible mining with all our stakeholders. We strive to act as a responsible corporate citizen by building projects together with the communities near our operations and by committing to using best available techniques as we carry out our actions. We aim to achieve benefits for all parties involved and to contribute to the sustainability and improved livelihoods for the communities in which we operate.

**Our Vision** is to become a pre-eminent gold producer in Senegal while setting the benchmark for responsible mining.

**Phase 1:** Become a pre-eminent gold producer in Senegal with 250,000 to 350,000 ounces of annual gold production leveraging off the Company's existing mill and infrastructure.

**Phase 2:** Increase annual gold production to 400,000 to 500,000 ounces.

## FINANCIAL AND OPERATING HIGHLIGHTS

(US\$000s, except where indicated)	Three months ended		Year ended		Fifteen months
	December 31		December 31		ended December 31
Financial Data	2013	2012	2013	2012	2011
Revenue	58,302	122,970	297,927	350,520	236,873
Profit (loss) attributable to					
shareholders of Teranga	(4,220)	54,228	47,516	92,600	(16,040)
Per share	(0.01)	0.22	0.18	0.38	(0.07)
Operating cash flow	13,137	59,670	74,307	104,982	5,132
Capital expenditures	3,725	28,521	69,056	115,785	76,392
Free cash flow <sup>1</sup>	9,412	31,149	5,251	(10,803)	(71,260)
Cash and cash equivalents (including					
restricted cash and bullion receivables)	42,301	44,974	42,301	44,974	24,549
Net debt <sup>2</sup>	32,068	75,182	32,068	75,182	95,748
Total assets			624,399	564,541	476,612
Total non-current financial liabilities			29,241	68,505	67,042

Operating Data	Three months ended		Year ended December 31		
	2013	2012	2013	2012	2011
Gold Produced (ounces)	52,368	71,804	207,204	214,310	131,461
Gold Sold (ounces)	46,561	71,604	208,406	207,814	137,136
Average realized price (\$ per ounce)	1,249	1,296	1,246	1,422	1,236
Total cash costs (\$ per ounce sold) <sup>3</sup>	711	532	641	556	782
All-in sustaining costs (\$ per ounce sold) <sup>3</sup>	850	1,004	1,033	1,200	1,126
Total depreciation and amortization					
(\$ per ounce sold) <sup>3</sup>	375	253	301	225	249

Note: December 31, 2012 values were restated due to the adoption of IFRIC 20. Refer to Adoption of New Accounting Standards.

Note: Results include the consolidation of 72.6 percent of Oromin's operating results, cash flows and net assets from August 6, 2013 and 100 percent from October 4, 2013.

<sup>1</sup> Free cash flow is defined as operating cash flow less capital expenditures.

<sup>2</sup> Net debt is defined as total borrowings and financial derivative liabilities less cash and cash equivalents, restricted cash and bullion receivables.

<sup>3</sup> Total cash costs per ounce, all-in sustaining costs and total depreciation and amortization per ounce are non-IFRS financial measures and do not have a standard meaning. Please refer to Non-IFRS Performance Measures at the end of this report.

## FOURTH QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

- Gold revenue for the three months ended December 31, 2013 was \$58.3 million. The decrease in gold revenue compared to the prior-year quarter was due to lower gold sales from lower production and lower spot gold prices during the fourth quarter of 2013.
- The decrease in profit and earnings per share over the prior-year quarter were primarily due to higher transaction costs related to the acquisitions of Oromin and the remainder of the OJVG during the fourth quarter of 2013 and lower gross profit.
- The decrease in operating cash flow compared to the prior-year quarter was mainly due to a lower gross profit and a decrease in net working capital inflows during the fourth quarter of 2013.
- The decrease in capital expenditures over the prior-year quarter was mainly due to lower sustaining and develop-

ment expenditures and lower capitalized reserve development expenditures in the fourth quarter of 2013.

- Lower production in the current-year quarter was mainly due to lower processed grades, partly offset by higher mill throughput.
- During the fourth quarter of 2013, 46,561 ounces were sold at an average gold price of \$1,249 per ounce compared to 71,604 ounces sold at an average price of \$1,296 per ounce in the same prior-year period, including 33,606 ounces being delivered into gold hedge contracts at an average price of \$833 per ounce.
- Total cash costs for the three months ended December 31, 2013 totalled \$711 per ounce sold. Higher total cash costs per ounce were due to an increase in material mined and milled during the quarter compared to the year-earlier period. Total cash costs have been adjusted for the adoption of IFRIC 20 for capitalization of a portion of production phase stripping costs.

- All-in sustaining costs for the three months ended December 31, 2013 were \$850 per ounce sold compared to \$1,004 per ounce sold in the same prior-year period. The decrease compared to the prior-year was due to lower capital expenditures and administration expenses in the current-year period, partly offset by higher total cash costs.
- The Company's cash balance at December 31, 2013 was \$42.3 million, including \$20.0 million in restricted cash and \$7.3 million in bullion receivables. The Company's cash balance is after payments of \$11.0 million for expenses related to the acquisitions of Oromin and the OJVG.
- The increase in depreciation expense per ounce compared to the prior-year quarter was mainly due to higher depreciation basis in the current-year period.

## OUTLOOK 2014

		Year ended December 31	
		2013 Actuals	2014 Guidance Range
Operating Results			
Ore mined	('000t)	4,540	5,300–6,000
Waste mined – operating	('000t)	15,172	18,200–19,000
Waste mined – capitalized	('000t)	15,066	500–1,000
Total mined	('000t)	34,778	24,000–26,000
Grade mined	(g/t)	1.62	1.60–1.70
Strip ratio	(waste/ore)	6.7	3.25–3.50
Ore milled	('000t)	3,152	3,400–3,600
Head grade	(g/t)	2.24	2.20–2.40
Recovery rate	%	91.4	90.0–91.0
Gold produced <sup>1</sup>	(oz)	207,204	220,000–240,000
Total cash cost (incl. royalties) <sup>2,3</sup>	\$/oz sold	641	650–700
All-in sustaining costs <sup>2,3</sup>	\$/oz sold	1,033	800–875
Mining	(\$/t mined)	2.59	2.75–2.95
Milling	(\$/t milled)	20.15	18.00–19.00
G&A	(\$/t milled)	5.38	4.75–5.25
Gold sold to Franco-Nevada <sup>1</sup>	(oz)	–	22,500
Exploration and evaluation expense (Regional Land Package)	(\$ millions)	5.4	4.0–6.0
Administration expenses and Social community costs (excluding depreciation)	(\$ millions)	13.6	15.0–16.0
Mine production costs	(\$ millions)	170.8	155.0–165.0
Capital expenditures			
Mine site sustaining	(\$ millions)	9.9	7.0–8.0
Capitalized reserve development (Mine license)	(\$ millions)	3.5	4.0–6.0
Project development costs			
Government payments	(\$ millions)	3.5	12.0–14.0
Development	(\$ millions)	0.5	3.0–5.0
Mobile equipment and other	(\$ millions)	8.4	–
Total project development costs	(\$ millions)	12.4	15.0–19.0
Capitalized deferred stripping <sup>2</sup>	(\$ millions)	43.3	2.0–3.0
Total capital expenditures	(\$ millions)	69.1	28.0–33.0

<sup>1</sup> 22,500 ounces of production are to be sold to Franco-Nevada at 20 percent of the spot gold price.

<sup>2</sup> Total cash costs per ounce and all-in sustaining costs per ounce are non-IFRS financial measures and do not have a standard meaning under IFRS. Please refer to Non-IFRS Performance Measures at the end of this report.

<sup>3</sup> Total cash costs per ounce sold for 2012 were restated to comply with the Company's adoption of IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine, in line with the Company's accounting policies and industry standards.

<sup>4</sup> All-in sustaining costs per ounce sold include total cash costs per ounce, administration expenses (excluding Corporate depreciation expense and social community costs not related to current operations), capitalized deferred stripping, capitalized reserve development and mine site sustaining capital expenditures (including project development costs) as defined by the World Gold Council.

Key assumptions: gold spot price/ounce – US\$1,250, light fuel oil – US\$1.15/litre, heavy fuel oil – US\$0.98/litre, US\$euro exchange rate – \$1.325

Other important assumptions include: any political events are not expected to impact operations, including movement of people, supplies and gold shipments; grades and recoveries will remain consistent with the life-of-mine plan to achieve the forecast gold production; and no unplanned delays in or interruption of scheduled production.

### 2014 Guidance Analysis

The Company's 2014 operating budget has been designed to maximize free cash flow. Mining activity in 2014 is expected to focus on completing phase 3 of the Sabodala pit, as phase 4 of the Sabodala mine plan has been deferred to minimize material moved. Mining equipment freed up from the deferral of Sabodala phase 4 is anticipated to be used to begin mining activities at the Masato deposit in the fourth quarter of the year.

The higher processing rate in 2014 is a result of improvements made in the first half of 2013 to the crushing circuit and in line with throughput rates in the second half of 2013.

Total cash costs per ounce for 2014 are expected to be similar to 2013 while all-in sustaining costs per ounce are expected to be lower than 2013, mainly due to lower capital expenditures and deferred stripping costs.

Exploration and evaluation expenditures for 2014 are expected to total approximately \$10 million for both the Mine License and Regional Land Package combined.

The exploration program in 2014 will focus on the conversion of resources to reserves and extensions of existing deposits along strike on the Sabodala and OJVG Mine Licenses, as well as the continuation of a systematic regional exploration program designed to identify satellite and standalone deposits.

Administrative and Corporate Social Responsibility expenses are expected to total \$15–\$16 million, similar to 2013. Lower administrative costs at the corporate office are expected to be offset by higher social commitments related to the acquisition of the OJVG and additional staffing in the Dakar office. The 2014 plan has been designed to provide the necessary support for operations and development and includes corporate office costs, Dakar office costs and corporate responsibility costs, but excludes corporate depreciation, transaction costs and other non-recurring costs.

Capitalized expenditures, including sustaining mine site expenditures, project development expenditures, capitalized deferred stripping, reserve development expenditures and payments to the Government of Senegal are expected to total \$28–\$33 million.

### Sensitivity

	2014 Assumption	Hypothetical Change	Impact on total cash costs	Impact on profit
Gold revenue	\$ 1,250/oz	\$ 100/oz	n/a	\$ 22M
Gold total cash costs				
Gold price effect on royalties	\$ 1,250/oz	\$ 100/oz	\$ 5/oz	\$ 1.2M
HFO price	\$ 0.98/litre	\$ 0.10/litre	\$ 12/oz	\$ 2.8M
LFO price	\$ 1.15/litre	\$ 0.10/litre	\$ 7/oz	\$ 1.6M
EUR exchange rate	1.325:1	10%	\$ 40/oz	\$ 10M

## REVIEW OF ANNUAL FINANCIAL RESULTS

(US\$000s, except where indicated)

Year ended December 31

Financial Results	2013	2012
Revenue	297,927	350,520
Cost of sales	(196,505)	(165,238)
<b>Gross Profit</b>	<b>101,422</b>	<b>185,282</b>
Exploration and evaluation expenditures	(5,405)	(16,657)
Administration expenses	(14,717)	(15,573)
Share-based compensation	(813)	(4,694)
Finance costs	(12,148)	(7,362)
Gains (losses) on gold hedge contracts	5,308	(15,274)
Gains (losses) on oil hedge contracts	31	(427)
Net foreign exchange losses	(1,233)	(2,574)
Loss on available for sale financial asset	(4,003)	(11,917)
Gain on equity investment	52	–
Other expense	(11,895)	(2,749)
<b>Profit/(loss) before income tax</b>	<b>56,599</b>	<b>108,055</b>
Income tax benefit	–	115
<b>Profit for the period</b>	<b>56,599</b>	<b>108,170</b>
Profit attributable to non-controlling interest	(9,083)	(15,570)
<b>Profit attributable to shareholders of Teranga</b>	<b>47,516</b>	<b>92,600</b>
Basic earnings per share	0.18	0.38

Note: Results include the consolidation of 72.6 percent of Oromin's operating results, cash flows and net assets from August 6, 2013 and 100 percent from October 4, 2013.

### Revenue

Gold revenue for the twelve months ended December 31, 2013 was \$297.9 million compared to gold revenue of \$350.5 million for the same prior-year period. The decrease in gold revenue was due to lower spot gold prices in the current year. Revenues exclude the impact of realized losses on ounces delivered into forward sales contracts which are classified within gains and losses on gold hedge contracts.

For the twelve months ended December 31, 2013, the average spot price of gold was \$1,411 per ounce, trading between \$1,192 and \$1,694 per ounce. This compares to an average of \$1,669 per ounce for the twelve months ended December 31, 2012, with a low of \$1,540 per ounce and a high of \$1,792 per ounce.

## COST OF SALES

(US\$000s)

	Year ended December 31	
Cost of Sales	2013	2012
Mine production costs – gross	170,752	145,832
Capitalized deferred stripping	(43,264)	(32,535)
	127,488	113,297
Depreciation and amortization	77,902	55,645
Royalties	14,755	10,491
Rehabilitation	6	36
Inventory movements – cash	(8,552)	(5,409)
Inventory movements – non-cash	(15,094)	(8,822)
	(23,646)	(14,231)
<b>Total cost of sales</b>	<b>196,505</b>	<b>165,238</b>

For the twelve months ended December 31, 2013, mine production costs, before capitalized deferred stripping, were \$170.8 million compared with \$145.8 million in the prior year. Higher mine production costs in 2013 were mainly due to higher costs related to material movement in mining combined with higher processing activity (see Review of Annual Operating Results section).

Depreciation and amortization for the twelve months ended December 31, 2013 totalled \$77.9 million compared to \$55.6 million in the prior-year period. Depreciation was higher for the twelve months ended December 31, 2013 due to an increase in the depreciation basis with the commissioning of the mill expansion during the third quarter of 2012. Approximately 77 percent of the Company's fixed assets are depreciated using the units-of-production ("UOP") method of depreciation during the current-year period (approximately 80 percent in the prior-year period).

For the twelve months ended December 31, 2013, royalties of \$14.8 million were \$4.3 million higher than the prior-year period due to an increase in the royalty rate on sales from 3 percent to 5 percent, effective January 1, 2013.

Inventory movements for the twelve months ended December 31, 2013 resulted in a decrease to cost of sales of \$23.6 million compared to a decrease to cost of sales of \$14.2 million for the twelve months in the prior-year period. For the twelve months ended December 31, 2013, higher

costs were absorbed into inventory as a result of higher mine production costs over fewer ounces mined during the current period compared to the prior-year period.

### Exploration and Evaluation

Exploration and evaluation expenditures for the twelve months ended December 31, 2013 totalled \$5.4 million, \$11.3 million lower than the prior-year period, reflecting the Company's decision to minimize drilling on the Regional Land Package in the current gold price environment to maximize cash flow.

### Administration

Administration expenses for the twelve months ended December 31, 2013 were \$14.7 million or \$0.9 million lower than the prior year. Lower costs in 2013 reflect lower corporate office, professional, consulting and legal costs, partially offset by higher social community costs and depreciation expense for IT infrastructure.

### Share-Based Compensation

During the twelve months ended December 31, 2013, a total of 820,000 common share stock options were granted to directors, officers, and employees, all at an exercise price of C\$3.00 per share, and 2,132,917 common share stock options were cancelled during the twelve months ended December 31, 2013. No stock options were exercised during the year.



In connection with the acquisition of Oromin during 2013, Teranga issued 7,911,600 replacement stock options. See Outstanding Share Data for further details.

Of the 23,737,850 common share stock options issued and outstanding as at December 31, 2013, 15,651,250 vest over a three-year period, 7,911,600 are already vested and 175,000 vest based on achievement of certain milestones. The fair value of options that vest upon achievement of milestones will be recognized based on our best estimate of outcome of achieving our results.

### Finance Costs

Finance costs for the twelve months ended December 31, 2013 of \$12.1 million reflect interest costs related to the outstanding bank and mobile equipment loans, amortization of capitalized deferred financing costs, political risk insurance relating to the project finance facility and bank charges. Finance costs were \$4.7 million higher for the twelve months ended December 31, 2013 than the same prior-year period due to higher debt balances and interest costs on borrowings. Finance costs in 2014 are expected to be lower than 2013 with the retirement of half of the loan facility with Macquarie Bank Limited ("Macquarie") for \$30.0 million in January 2014 and repayment of balance in 2014.

### Other Expense

(US\$000s)	Year ended December 31	
Other expense	2013	2012
<i>Acquisition costs</i>		
Legal & advisory services	4,667	2,151
Financial advisory services	5,685	634
Other	668	–
	11,020	2,785
Non-recurring legal and other costs	927	–
Interest income	(52)	(36)
<b>Total</b>	<b>11,895</b>	<b>2,749</b>

Other expenses were \$11.9 million for the twelve months ended December 31, 2013. This compares to other expenses of \$2.7 million for the twelve months in the prior-year period. The increase in the current year is primarily related to costs associated with the acquisitions of Oromin and OJVG. The Company made payments of \$11.0 million in 2013 for transaction costs related to the acquisitions of Oromin and the OJVG.

### Adoption of IFRIC 20

2012 comparative amounts have been restated to reflect the Company's adoption of IFRIC 20 – Stripping Costs in the Pro-

### Gold Hedge Contracts

During the second quarter 2013, the Company bought back the remaining "out of the money" gold forward sales contracts at a cost of \$8.6 million. The gain on gold hedge contracts totalled \$5.3 million for the twelve months ended December 31, 2013, resulting from a decrease in the spot price of gold from December 31, 2012.

### Oil Hedge Contracts

The oil hedge contracts were completed at March 31, 2013. The gain on settlement of oil hedge contracts totalled \$0.5 million for the quarter ended March 31, 2013 and resulted from an increase in the spot oil price over December 31, 2012.

### Net Foreign Exchange Gains and Losses

The Company generated foreign exchange losses of \$1.2 million for the twelve months ended December 31, 2013 and \$2.6 million for the same prior-year period, primarily related to realized losses from the Sabodala gold mine operating costs recorded in the local currency and translated into the U.S. dollar functional currency.

### Impairment of Available for Sale Financial Assets

For the twelve months ended December 31, 2013, a non-cash impairment loss of \$4.0 million was recognized on the Oromin shares based on further declines in Oromin's share price, relative to a previous impairment loss that was recorded as at December 31, 2012. This compares to a non-cash impairment loss of \$11.9 million for the twelve months ended December 31, 2012.

duction Phase of a Surface Mine. Refer to Adoption of New Accounting Standards.

### All-in Sustaining Costs Per Ounce

Beginning in the second quarter of 2013, the Company adopted an "all-in sustaining costs" measure and "all-in costs" measure consistent with the guidance issued by the World Gold Council ("WGC") on June 27, 2013. For additional information, please refer to Non-IFRS Financial Measures.



## REVIEW OF ANNUAL OPERATING RESULTS

		Three months ended December 31		Year ended December 31	
Operating Results		2013	2012	2013	2012
Ore mined	('000t)	1,993	2,038	4,540	5,916
Waste mined – operating	('000t)	6,655	4,362	15,172	12,265
Waste mined – capitalized	('000t)	420	912	15,066	10,696
Total mined	('000t)	9,068	7,312	34,778	28,877
Grade mined	(g/t)	1.61	2.04	1.62	1.98
Ounces mined	(oz)	103,340	133,549	236,718	376,184
Strip ratio	waste/ore	3.6	2.6	6.7	3.9
Ore milled	('000t)	860	725	3,152	2,439
Head grade	(g/t)	2.11	3.40	2.24	3.08
Recovery rate	%	89.7	90.7	91.4	88.7
Gold produced <sup>1</sup>	(oz)	52,368	71,804	207,204	214,310
Gold sold	(oz)	46,561	71,604	208,406	207,814
Average price received	\$/oz	1,249	1,296	1,246	1,422
Total cash cost (incl. royalties) <sup>2</sup>	\$/oz sold	711	532	641	556
All-in sustaining costs <sup>2</sup>	\$/oz sold	850	1,004	1,033	1,200
Mining	(\$/t mined)	2.65	3.11	2.59	2.71
Milling	(\$/t milled)	17.96	19.88	20.15	20.39
G&A	(\$/t milled)	4.84	6.35	5.38	6.12

<sup>1</sup> Gold produced represents change in gold in circuit inventory plus gold recovered during the period.

<sup>2</sup> Total cash costs per ounce and all-in sustaining costs per ounce are non-IFRS financial measures and do not have a standard meaning under IFRS. Please refer to Non-IFRS Performance Measures at the end of this report.

### Mining

Total tonnes mined for the twelve months ended December 31, 2013 were 20 percent higher compared to the same prior-year period. The increase in total tonnes mined was mainly due to improved haul truck productivities as a result of shorter ore and waste haul distances as well as improved loading efficiencies.

During the year, mining activities were mainly focused on the upper benches of phase 3 of the Sabodala pit, while in the prior-year period, and into the first quarter of 2013, mining primarily took place in a high-grade ore zone on lower benches of phase 2.

The improved loading efficiencies were the result of the new PC3000 shovel purchased in the second quarter 2013, which replaces the less-efficient wheel loaders and the smaller PC2000 shovel.

In the current gold price environment, the Company continues to focus on optimizing waste stripping to match ore delivery to the mill.

Unit mining costs for the twelve months ended December 31, 2013 were 4 percent lower than the same prior-year period mainly due to improved truck and loading productivities. Total mining costs were 15 percent higher than the same prior-year period due to increased material movement.

### Processing

Ore tonnes milled for the year ended December 31, 2013 were 29 percent higher than the same prior-year period due to improvements made to reduce the frequency and duration of unplanned downtime and an increase in throughput in the crushing circuit to match mill capacity. These improvements were primarily accomplished during two planned major shutdowns in January and May with a third taking place in October. As a result of the work completed, mill throughput achieved annualized design capacity of 3.5 million tonnes of primarily hard ore in the second half of 2013.

Processed grade for the year ended December 31, 2013 was 27 percent lower than the same prior-year period, as planned. Mill feed during the second quarter of 2013 onwards was sourced from a combination of lower-grade stockpile material and ore from phase 3 of the Sabodala pit at grades closer to reserve grade. In the year-earlier period, leading into the first quarter 2013, mill feed was sourced from a high-grade zone on the lower benches of phase 2 of the Sabodala pit.

Gold production for the year was at the higher end of guidance of 190,000–210,000 ounces, at 207,204 ounces, 3 percent lower than the same prior-year period, mainly due to lower processed grades, partly offset by higher mill throughput.

Unit processing costs for the year ended December 31, 2013 were in line with the prior-year period at \$20.15 per tonne, due to an increase in throughput partly offset by higher processing costs. Total processing costs for the year ended December 31, 2013 were 28 percent higher than the same prior-year period, mainly due to higher overall throughput in the crushing circuit from mid-June onwards which resulted in an increase in consumption of heavy fuel oil ("HFO") and cyanide as a result of higher tonnes milled and higher maintenance costs associated with the planned January, May and October shutdowns. These increases were partly offset by lower consumption of grinding media due to better management of recycled product.

Unit general and administration costs for the year ended December 31, 2013 were 12 percent lower than the same prior-year period mainly due to the increase in tonnes milled. Total general and administrative costs for the year ended December 31, 2013 of \$17.2 million were 3 percent higher than the prior-year mainly due to higher spending on communications and training and development costs, partially offset by lower insurance premiums.

Total cash costs for the year were below guidance of \$650–\$700 per ounce, at \$641 per ounce, compared to \$556 per ounce in the same prior-year period. The increase in total cash costs was mainly due to an increase in material processed and higher royalty costs in 2013 compared to 2012.

All-in sustaining costs for 2013 were at the low end of guidance of \$1,000–\$1,100 per ounce, at \$1,033 per ounce, 14 percent lower than the same prior-year period. Lower all-in sustaining costs were mainly due to lower capital expenditures, a result of the completion of the mill expansion in 2012, and a reduction in reserve development expenditures in 2013, partly offset by higher total cash costs and capitalized deferred stripping.

## REVIEW OF QUARTERLY FINANCIAL AND OPERATING RESULTS

### Quarterly Financial Results

#### *Revenue*

Gold revenue for the three months ended December 31, 2013 was \$58.3 million compared to gold revenue of \$123.0 million for the same prior-year period. The decrease in gold revenue for the fourth quarter 2013 was driven by lower gold sales and lower spot gold prices. Gold sold during the fourth quarter 2013 was lower than production due to an increase in gold in circuit and gold bullion inventory at the end of the period. Fourth quarter revenues from 2012 exclude the impact of realized losses on ounces delivered into forward sales contracts which are classified within gains and losses on gold hedge contracts.

During the fourth quarter of 2013, the average spot price of gold was \$1,274 per ounce, with gold trading between a range of \$1,195 and \$1,361 per ounce based on the London PM Fix gold price. This compares to an average of \$1,722 per ounce during the prior-year quarter, with a low of \$1,651 and a high of \$1,792 per ounce.

#### *Cost of Sales*

Cost of sales for the three months ended December 31, 2013 totalled \$50.5 million compared with cost of sales of \$57.3 million for the three months ended December 31, 2012.

For the three months ended December 31, 2013, mine production costs, before capitalized deferred stripping, were \$43.6 million compared to \$42.8 million in the same prior-year period. Higher mine production costs in 2013 due to higher costs related to material movement in mining combined and higher processing activity were partly offset by lower costs for consumables.

Depreciation and amortization for the three months ended December 31, 2013 totalled \$26.7 million compared with \$20.5 million in the same prior-year period. Depreciation was higher in the fourth quarter of 2013 due to an increase in the depreciation basis with the commissioning of the mill expansion at the end of 2012.

For the three months ended December 31, 2013, royalties were \$2.9 million, \$0.8 million lower than the prior-year period due to lower gold sales and spot gold prices in the current-year period, partially offset by an increase in the royalty rate on sales from 3 percent to 5 percent, effective January 1, 2013.

Inventory movements for the three months ended December 31, 2013 resulted in a decrease to cost of sales of \$21.2 million compared to a decrease to cost of sales of \$6.6 million for the three months in the prior-year period. For the three months ended December 31, 2013, higher costs were absorbed into inventory as a result of higher mine production costs over fewer ounces mined during the current period compared to the prior-year period.

#### *Exploration and Evaluation*

Exploration and evaluation expenditures for the three months ended December 31, 2013 totalled \$1.0 million, \$1.7 million lower than the same prior-year period, reflecting the Company's decision to minimize drilling on the Regional Land Package in the current gold price environment to maximize cash flow.

#### *Administration*

Administration expenses for the three months ended December 31, 2013, which include costs of the corporate and Dakar office, were \$3.2 million or \$1.8 million lower than the prior-year period, mainly due to lower corporate office costs.

### *Share-Based Compensation*

During the three months ended December 31, 2013, there were no common share stock options granted and 179,583 common share stock options were cancelled during the three months ended December 31, 2013. No stock options were exercised during the quarter.

### *Finance Costs*

Finance costs for the three months ended December 31, 2013 of \$3.2 million was \$0.5 million higher than the same prior-year period mainly due to higher debt balances and interest costs on borrowings.

### *Net Foreign Exchange Gains and Losses*

The Company generated foreign exchange losses of \$0.4 million for the three months ended December 31, 2013 and \$1.5 million in the prior-year period, primarily related to realized losses from the Sabodala gold mine operating costs recorded in the local currency and translated into the U.S. dollar functional currency.

### *Other Expense*

Other expenses were \$3.4 million for the three months ended December 31, 2013 compared to other expenses of \$0.7 million for the three months in the same prior-year period. The increase in the current year is related to costs associated with the acquisitions of Oromin and the OJVG.

## **Quarterly Operational Results**

### *Mining*

Total tonnes mined for the three months ended December 31, 2013 were 24 percent higher compared to the same prior-year period. The increase in total tonnes mined was mainly due to improved productivities and shorter ore and waste haul distances.

During the quarter, mining activities were focused on the upper benches of phase 3 of the Sabodala pit, while in the same prior-year period mining took place in a high-grade ore zone on lower benches of phase 2.

Ore tonnes mined for the three months ended December 31, 2013 were 2 percent lower compared to the same prior-year period and ore grades mined were lower than the same prior-year period, in line with plan. This resulted in 23 percent fewer ounces mined for the three months ended December 31, 2013 as mining activities were concentrated on waste stripping activities in phase 3 of the mine plan. Conversely, mining activities during the prior-year period took place in lower benches of phase 2 and included a substantial amount of high-grade ore.

Unit mining costs for the fourth quarter of 2013 were \$2.65 per tonne, a decrease of 15 percent compared to the same prior-

year period. Total mining costs were 5 percent higher than the same prior-year period due to higher material movement.

### *Processing*

Ore tonnes milled for the three months ended December 31, 2013 were 19 percent higher than the same prior-year period due to improvements made to reduce the frequency and duration of unplanned downtime and an increase in throughput in the crushing circuit to match mill capacity.

Processed grade for the three months ended December 31, 2013 was 38 percent lower than the same prior-year period, as planned. Mill feed during the fourth quarter 2013 was sourced from phase 3 of the Sabodala pit at grades closer to reserve grade. In the year earlier period, mill feed was sourced from a high-grade zone on the lower benches of phase 2 of the Sabodala pit.

Gold production for the three months ended December 31, 2013 was on plan at 52,368 ounces of gold and 27 percent lower than the same prior-year period. Lower production was due to lower processed grades, partly offset by higher mill throughput.

Unit processing costs for the three months ended December 31, 2013 were 10 percent lower than the same prior-year period at \$17.96 per tonne, mainly due to an increase in throughput. Total processing costs for the three months ended December 31, 2013 were 7 percent higher than the same prior-year period mainly due to an increase in material processed.

Unit general and administration costs for the three months ended December 31, 2013 were 24 percent lower than the same prior-year period mainly due to the increase in tonnes milled. Total general and administrative costs for the three months ended December 31, 2013 of \$4.1 million were 16 percent lower than the prior year due to lower insurance premiums.

Total cash costs for the three months ended December 31, 2013 totalled \$711 per ounce sold, 34 percent higher than the same prior-year period. Higher total cash costs per ounce were due to an increase in material mined and milled during the quarter compared to the year-earlier period. Total cash costs have been adjusted for the adoption of IFRIC 20 for capitalization of a portion of production phase stripping costs.

All-in sustaining costs for the three months ended December 31, 2013 were \$850 per ounce sold compared to \$1,004 per ounce sold in the same prior-year period. The decrease compared to the prior-year was due to lower capital expenditures and administration expenses in the current-year period, partly offset by higher total cash costs.

## Quarterly Financial and Operating Information

(US\$000s, except where indicated)

	2013					2012		
	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Revenue	58,302	50,564	75,246	113,815	122,970	105,014	62,010	60,526
Average realized gold price (\$/oz)	1,249	1,339	1,379	1,090	1,296	1,290	1,608	1,712
Cost of sales	50,527	37,371	52,636	55,971	57,250	45,814	31,057	31,117
Net earnings (loss)	(4,220)	(442)	7,196	44,983	54,228	26,033	14,413	(2,074)
Net earnings (loss) per share (\$)	(0.01)	(0.00)	0.03	0.18	0.22	0.11	0.06	(0.01)
Operating cash flow	13,137	16,692	20,838	23,640	59,670	13,976	(4,590)	35,927

## STRATEGY AND DEVELOPMENT

### Strategy

#### *Company Performance in 2013*

During 2013, the price of gold decreased 28 percent, its first annual decrease in 13 years. In light of this gold price weakness, Teranga quickly took steps in early 2013 to reduce discretionary spending while maintaining its production guidance. The Company's exploration team was consolidated into one exploration facility and the organizational design was revised for increased efficiencies. Additionally, the Company's technical team designed a new mine plan on a standalone basis, resulting in less material movement, lower reserves and production but higher free cash flows at current gold prices.

Despite the challenges faced, the Company was able to deliver on its plans and this included the following:

- Met or exceeded production and cost guidance for the year;
- Resolved the outstanding items to bring the expanded mill to design capacity;
- Eliminated the inherited out-of-the-money hedge contracts;
- Established a long-term fiscal and investment agreement with the Senegalese Government, which
  - Reinforced Teranga's long-term commitment to the country; and
  - Demonstrated Senegal's willingness to work with foreign investors in a fair and transparent manner; and
- Completed the acquisition of the OJVG and prepared an initial integrated life-of-mine ("LOM") plan.

#### *Strategy for 2014 and Beyond*

The 2014 budget and integrated LOM plan for the combined operations have been designed to maximize free cash in the current gold price environment. The sequence of the pits can be optimized, as well as the sequencing of phases within the pits, based not only on grade, but also on strip ratio, ore hardness, and the capital required to maximize free cash flows in different gold price environments. As a result, this LOM annual production profile represents an optimized cash

flow for 2014 and a balance of gold production and cash flow generated in the subsequent five years. There are opportunities to increase gold production in years 2015-2018 based on current reserves. With expectations for additional reserves, including infill drilling of the high-grade zone at Masato, further mine plan optimization work is required. As a result, this LOM production schedule represents a "base case" scenario with flexibility to improve gold production and/or cash flows in subsequent years.

With the OJVG acquisition now complete the Company can clearly outline its short-, medium- and long-term objectives.

In the short term (2014-2015):

- i. Integrate OJVG and Sabodala operations;
- ii. Increase free cash flow through higher production and lower material movement, in part to retire the balance of the debt facility outstanding; and
- iii. Increase reserves through the conversion of Measured, Indicated and Inferred Resources.

In the medium term (2014-2016):

- i. Evaluate the heap leach processing option (permit and build if the returns meet Teranga's hurdle rate);
- ii. Continue to look for ways to improve mill throughput; and
- iii. Optimize mine planning and grade.

In the long term (2015 onward):

- i. Remain disciplined about investments in exploration with a commitment to a modest, multi-year exploration program; and
- ii. Look to make exploration discoveries on the regional exploration land package by continuing to systematically work through the many targets and prospects.

The Company expects to create value for shareholders by maximizing free cash flows in the short term by integrating the OJVG allowing for annual production of approximately 250,000 ounces at lower quartile all-in sustaining costs of about \$900 per ounce and a high conversion of EBITDA into free cash flow.

In the longer term, the Company expects to create shareholder value by leveraging the existing processing infrastructure, while adding profitable reserves and potentially expanding its processing capacity. All capital projects will be evaluated based on a disciplined capital allocation strategy based on robust hurdle rates and quick payback periods. The Company is focused on only gold and only in Senegal.

Once the loan facility with Macquarie has been extinguished and there is sufficient cash to execute on the business plan, the Company will look to returning capital to shareholders when appropriate.

### Acquisition of Oromin

On August 6, 2013, the Company acquired 78,985,388 common shares of Oromin, representing approximately 57.5 percent of the Oromin shares that the Company did not already own. Together with the 18,699,500 Oromin shares owned by the Company and a further 2,091,013 shares obtained, this represented a total of 99,775,901 Oromin shares or approximately 72.6 percent of the outstanding Oromin shares.

Former shareholders of Oromin were entitled to receive 0.6 of a common share of Teranga for each Oromin share. Total consideration paid of \$24.1 million consisted of the issuance of 48,645,840 Teranga common shares at a price of \$0.48 per share for consideration of \$23.5 million and the fair value of Oromin stock options replaced by 7,911,600 Teranga stock options for consideration of \$0.6 million. Share issue costs totalled \$0.2 million.

On October 4, 2013, the Company completed the acquisition of all of the issued and outstanding common shares of Oromin that it did not already own (Oromin being one of the three joint venture partners holding 43.5 percent of the OJVG), issuing 22,537,251 additional Teranga common shares at a price of \$0.61 per share for consideration of \$13.8 million.

In total, the Company issued 71,183,091 Teranga shares to acquire all of the Oromin shares for net consideration of \$37.8 million, including the fair value of Oromin stock options replaced by 7,911,600 Teranga stock options. As a result, Teranga's total number of issued and outstanding shares increased to 316,801,091.

### Franco-Nevada Gold Stream and Acquisition of the OJVG

On January 15, 2014, the Company completed a \$135.0 million stream transaction with Franco-Nevada Corporation ("Franco-Nevada") to fund the acquisition of Bendon's interest in the OJVG for \$105.0 million and retire half of the project finance facility with Macquarie of \$30.0 million. As a result of the two transactions, Teranga is required to deliver to Franco-Nevada 22,500 ounces annually over the

first six years followed by 6 percent of production from the Company's existing properties, including those of the OJVG, thereafter. Franco-Nevada's purchase price per ounce is set at 20 percent of the spot price of gold.

The Company also acquired Badr's 13 percent carried interest for \$7.5 million and further contingent consideration based on higher realized gold prices and increases to OJVG reserves through 2020.

The acquisition of Bendon and Badr's interests in the OJVG increased Teranga's ownership to 100 percent and consolidates the Sabodala region, increasing the size of Teranga's interests in Mine License from 33km<sup>2</sup> to 246km<sup>2</sup> and more than doubling the Company's reserve base.

Acquisition-related costs of approximately \$11.0 million for Oromin and the OJVG have been paid during the year ended December 31, 2013.

Following the acquisition of Bendon's interests in the OJVG subsequent to year-end, the legal claim filed by Bendon was dismissed.

### Reserves and Resources

Mineral Resources at December 31, 2013 are presented in Table 1. Total open pit Proven and Probable Mineral Reserves at December 31, 2013 are set forth in Table 2. The reported Mineral Resources are inclusive of the Mineral Reserves.

The Proven and Probable Mineral Reserves were based on the Measured and Indicated Resources that fall within the designed open pits. The basis for the resources and reserves is consistent with the Canadian Securities Administrators National Instrument 43-101 Standards for Disclosure for Mineral Projects ("NI 43-101") regulations. The design for the open pit limits, related phasing and long-term planning for the Sabodala open pit was carried out to maximize the economics under current market conditions by removing high-cost (high-strip) gold ounces in the Sabodala pit.

The Sabodala pit design is consistent with the Mineral Reserves reported for the third quarter 2013 results which are based on a \$1,000 per ounce gold price pit shell for phase 4. The cut off grades were established using an estimated gold price of \$1,250 per ounce. Mining phases in the Sabodala pit have been determined similarly to the previous designs, where the mine sequencing is based on accessing the high-grade Main Flat Extension ("MFE") through successive phases to balance waste stripping and optimize cash flows.

Dilution and ore recovery estimates for the Sabodala Mineral Reserves were based on a comparison of the resource model with actual production performance over a 24-month span using a 5 metre minimum mining width and 10 metre bench height.



The Niakafiri pit design remains unchanged from December 2012. The Gora pit design has been adjusted to reflect a pit shell at \$1,200 per ounce and an updated dilution analysis.

The Masato, Golouma and Kerekounda pit designs have been based on a \$1,250 per ounce pit shell. Geotechnical studies conducted previously by the OJVG were reviewed by independent consultants and were determined to be acceptable. Detailed dilution analyses were conducted on each of these deposits, and ore cut-off grades were established using an estimated gold price of \$1,250 per ounce.

As a result of the work we have conducted, overall reported open pit Mineral Reserves for the OJVG deposits have increased by approximately 90,000 ounces as compared to the last technical report issued by the OJVG in January 2013. An increase in open pit Mineral Reserves was identified at

the Golouma and Kerekounda deposits, which was partially offset by a decrease at Masato. Analyses of high-grade zones within the Masato ore body continue to be evaluated. Due to the manner of the interpretation of structural controls defining these high-grade zones, management has determined that further work and infill drilling is necessary to accurately define these trends within the mineralized envelopes. For purposes of this updated reserve estimate, the Company has applied a conservative interpretation method resulting in approximately 300,000 ounces of high-grade mineralization being excluded from Masato Mineral Reserves.

The following Mineral Reserves and Mineral Resources tables at December 31, 2013 are inclusive of 100 percent of the OJVG Mineral Reserves and Mineral Resources. On January 15, 2014, the Company acquired the balance of the OJVG that it did not already own.

**Table 1: Mineral Resources Summary as at December 31, 2013**

	Measured			Indicated			Measured and Indicated		
	Tonnes (Mt)	Grade (g/t)	Au (Moz)	Tonnes (Mt)	Grade (g/t)	Au (Moz)	Tonnes (Mt)	Grade (g/t)	Au (Moz)
Sabodala	24.28	1.32	1.03	22.95	1.29	0.95	47.23	1.31	1.98
Gora	0.49	5.27	0.08	1.84	4.93	0.29	2.32	5.00	0.37
Niakafiri	0.30	1.74	0.02	10.50	1.10	0.37	10.70	1.12	0.39
ML Other									
<b>Subtotal ML</b>	<b>25.07</b>	<b>1.40</b>	<b>1.13</b>	<b>35.29</b>	<b>1.42</b>	<b>1.61</b>	<b>60.25</b>	<b>1.42</b>	<b>2.74</b>
Masato				43.93	1.11	1.57	43.93	1.11	1.57
Golouma				12.04	2.69	1.04	12.04	2.69	1.04
Kerekounda				2.20	3.77	0.27	2.20	3.77	0.27
Somigol Other				18.72	0.93	0.56	18.72	0.93	0.56
<b>Subtotal Somigol</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>76.89</b>	<b>1.39</b>	<b>3.44</b>	<b>76.89</b>	<b>1.39</b>	<b>3.44</b>
<b>Total</b>	<b>25.07</b>	<b>1.40</b>	<b>1.13</b>	<b>112.18</b>	<b>1.40</b>	<b>5.05</b>	<b>137.14</b>	<b>1.40</b>	<b>6.18</b>

## Inferred Resources

Area	Tonnes (Mt)	Au (g/t)	Au (Moz)
Sabodala	17.88	0.94	0.54
Gora	0.21	3.38	0.02
Niakafiri	7.20	0.88	0.21
ML Other	10.60	0.97	0.33
<b>Subtotal ML</b>	<b>35.89</b>	<b>0.95</b>	<b>1.11</b>
Masato	25.59	1.13	0.93
Golouma	2.46	2.01	0.16
Kerekounda	0.34	4.21	0.05
Somigol Other	12.87	0.84	0.35
<b>Subtotal Somigol</b>	<b>41.26</b>	<b>1.12</b>	<b>1.49</b>
<b>Total</b>	<b>77.16</b>	<b>1.04</b>	<b>2.59</b>

### Notes for Mineral Resources Estimate:

- 1) CIM definitions were followed for Mineral Resources.
- 2) Mineral Resources for Sabodala include Sutuba.
- 3) Mineral Resource cut-off grades for Sabodala, Masato, Golouma, Kerekounda and Somigol Other are 0.2 g/t Au for oxide and 0.35 g/t Au for fresh.
- 4) Mineral Resource cut-off grades for Niakafiri are 0.3 g/t Au for oxide and 0.5 g/t Au for fresh.
- 5) Mineral Resource cut-off grade for Gora is 0.5 g/t Au for oxide and fresh.
- 6) Mineral Resource cut-off grade for Niakafiri West and Soukphoto is 0.3 g/t Au for oxide and fresh.
- 7) Mineral Resource cut-off grade for Diadiako is 0.2 g/t Au for oxide and fresh.
- 8) Measured Resources include stockpiles which total 8.60 Mt at 0.86 g/t Au for 0.24 Moz.
- 9) High-grade assays were capped at grades ranging from 10 g/t to 30 g/t Au at Sabodala, from 20 g/t to 70 g/t Au at Gora, from 2 g/t to 30 g/t Au at Masato, from 5 g/t to 70 g/t Au for Golouma, from 11 g/t to 50 g/t Au at Kerekounda, and from 0.8 g/t to 110 g/t Au at Somigol Other.
- 10) Inferred resources at Majiva have been removed, as the Makana permit has been allowed to lapse.
- 11) The figures above are "Total" Mineral Resources and include Mineral Reserves.
- 12) Sum of individual amounts may not equal due to rounding.

For clarity, the Resource estimates disclosed above with respect to Niakafiri, Gora and ML Other (which includes Niakafiri, Niakafiri West, Soukhoto and Diadiako) were prepared and first disclosed under the JORC Code 2004.

It has not been updated since to comply with JORC Code 2012 on the basis that the information has not materially changed since it was last reported. See Competent Person Statement on page 31 for further details.

**Table 2: Mineral Reserves Summary as at December 31, 2013**

	Proven			Probable			Proven and Probable		
	Tonnes	Grade	Au	Tonnes	Grade	Au	Tonnes	Grade	Au
	(Mt)	(g/t)	(Moz)	(Mt)	(g/t)	(Moz)	(Mt)	(g/t)	(Moz)
Sabodala	3.45	1.64	0.18	5.53	1.58	0.28	8.98	1.60	0.46
Gora	0.50	4.58	0.07	1.39	4.80	0.21	1.89	4.74	0.29
Niakafiri	0.23	1.69	0.01	7.58	1.12	0.27	7.81	1.14	0.29
Stockpiles	8.60	0.86	0.24				8.60	0.86	0.24
<b>Subtotal ML</b>	<b>12.78</b>	<b>1.23</b>	<b>0.51</b>	<b>14.50</b>	<b>1.65</b>	<b>0.77</b>	<b>27.28</b>	<b>1.45</b>	<b>1.27</b>
Masato				25.24	1.21	0.98	25.24	1.21	0.98
Golouma				6.47	2.24	0.46	6.47	2.24	0.46
Kerekounda				0.88	3.26	0.09	0.88	3.26	0.09
<b>Subtotal Somigol</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>32.59</b>	<b>1.47</b>	<b>1.54</b>	<b>32.59</b>	<b>1.47</b>	<b>1.54</b>
<b>Total</b>	<b>12.78</b>	<b>1.23</b>	<b>0.51</b>	<b>47.09</b>	<b>1.52</b>	<b>2.31</b>	<b>59.87</b>	<b>1.46</b>	<b>2.81</b>

*Notes for Reserves Estimate:*

- 1) CIM definitions were followed for Mineral Reserves.
- 2) Mineral Reserve cut-off grades for Sabodala are 0.40 g/t Au for oxide and 0.5 g/t Au for fresh based on a \$1,250/oz gold price and metallurgical recoveries between 90 percent and 93 percent.
- 3) Mineral Reserve cut-off grades for Niakafiri are 0.35 g/t Au for oxide and 0.5 g/t Au for fresh based on a \$1,350/oz gold price and metallurgical recoveries between 90 percent and 92 percent.
- 4) Mineral Reserve cut-off grade for Gora is 0.76 g/t Au for oxide and fresh based on \$1,200/oz gold price and metallurgical recovery of 95 percent.
- 5) Mineral Reserve cut-off grade for Masato, Golouma and Kerekounda are 0.4 g/t Au for oxide and 0.5 g/t for fresh based on \$1,250/oz gold price and metallurgical recovery between 90 percent and 93 percent.
- 6) Sum of individual amounts may not equal due to rounding.
- 7) The Niakafiri deposit is adjacent to the Sabodala village and relocation of at least some portion of the village will be required which will necessitate a negotiated resettlement program with the affected community members.
- 8) The Gora deposit is intended to be merged into the Sabodala mining license which the State of Senegal has agreed to in principal subject to completion and receipt of an approved environmental and social impact assessment which is ongoing.
- 9) The SOMIGOL deposits lie adjacent to the Sabodala mining license and it is intended that these licenses be merged which the State of Senegal has agreed to in principal under the terms of its previously announced global investment agreement in May of 2013. Any additional specific permits are anticipated to be minor given both licenses are already fully approved including environmental and social impact assessments.
- 10) There are no other known political, legal or environmental risks that could materially affect the potential development of the identified mineral resources or mineral reserves other than as already set out in the Company's Annual Information Form dated March 28, 2013 – see RISK FACTORS beginning on page 62.

For clarity, the Reserve estimates disclosed above with respect to Niakafiri and Gora were prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with JORC Code 2012 on the basis that the information has not materially changed since it was last reported. See Competent Person Statement on page 31 for further details.

### OJVG Technical Integration

The acquisition of Oromin in August 2013 provided access to the OJVG technical data. Since then, management has been evaluating and integrating the geological and technical data-bases to develop updated resources and reserves to establish a combined LOM plan that will be supported by a NI 43-101 compliant technical report, targeted for March 2014.

The ongoing technical work for the OJVG integrated mine plan has included:

- A comprehensive review of the Golouma, Masato and Kerekounda ore bodies including re-logging and re-assay of key drill intercepts, QA/QC checks and detailed interpretation to update these resource models;

- Economic Lerchs-Grossman (“LG”) pit optimization and detailed pit designs to reflect the current gold price;
- Preliminary Life-of-Mine (“LOM”) mine planning schedules for optimized cash flow analysis, detailed dilution analysis, pit designs, mine operating and capital estimates;
- An updated tailings deposition and water balance model;
- Ongoing analysis of the metallurgical test results for ore characterization studies of select areas within the Masato and Golouma ore bodies to increase understanding from Feasibility Study level and optimize feed and gold recovery to the Sabodala mill; and
- Environmental and social impact reviews for a reduced footprint using the Sabodala operations.

In addition to development of an integrated LOM, the OJVG technical team was engaged with the Teranga technical teams both at site in Senegal and the corporate offices.

### Integrated LOM Schedule

Table 3 represents a LOM schedule developed from the proven and probable reserves listed in Table 2. The pit sequencing



schedule is based on blending the material movement capability with the mine mobile fleet and the availability of high-grade ore within the various ore bodies. This schedule represents one of a number of possibilities that can be adjusted as economic conditions change. Open pit mining methods similar to current operations at the Sabodala deposit were applied by providing the highest grade available for plant feed and stockpiling lower-grade ore for processing at the end of mine life. A detailed mine dilution and ore recovery analysis was applied for the Masato, Golouma and Kerekounda deposits to determine mine operating parameters.

Capital and operating cost estimates for the LOM are provided in Table 4 and Table 5, respectively. Sustaining capital estimates for mining were based on the major component and replacement schedule for the existing mobile equipment fleet, while the capital development costs for Gora and the OJVG deposit were based on additional mine mobile equipment and infrastructure for new pit development. Sustaining capital estimates are based on the existing schedules for the plant operations, including an additional tailings lift forecasted in approximately three years. Operating costs for the mine were calibrated to 2013 costs at Sabodala and then adjusted for percentage of oxide ore and average weighted haul distance to the various ore body locations.

**Table 3: Life of Mine**

			2014-2019						
			LOM	AVG	2014	2015	2016	2017	2018
Sabodala Phase 3	Ore Mined	Mt	4.8		4.8	–	–	–	–
	Ore Grade	g/t	1.68		1.68	–	–	–	–
	Waste	Mt	16.5		16.5	–	–	–	–
	Contained Oz	Moz	0.26		0.26	–	–	–	–
Sabodala Phase 4	Ore Mined	Mt	4.1		–	–	0.5	1.7	1.9
	Ore Grade	g/t	1.51		–	–	1.01	1.53	1.61
	Waste	Mt	29.6		–	–	13.1	11.9	4.6
	Contained Oz	Moz	0.20		–	–	0.02	0.09	0.10
Masato Phase 1	Ore Mined	Mt	13.5		0.9	12.6	–	–	–
	Ore Grade	g/t	1.09		0.91	1.10	–	–	–
	Waste	Mt	32.3		3.4	28.9	–	–	–
	Contained Oz	Moz	0.47		0.03	0.44	–	–	–
Masato Phase 2	Ore Mined	Mt	11.8		–	–	–	–	–
	Ore Grade	g/t	1.37		–	–	–	–	–
	Waste	Mt	101.3		–	–	–	–	–
	Contained Oz	Moz	0.52		–	–	–	–	–
Gora	Ore Mined	Mt	1.9		–	0.2	0.7	0.3	0.4
	Ore Grade	g/t	4.74		–	3.80	4.15	6.55	3.75
	Waste	Mt	38.1		–	5.1	12.0	9.7	9.6
	Contained Oz	Moz	0.29		–	0.03	0.10	0.06	0.05
Golouma	Ore Mined	Mt	6.5		–	–	1.0	0.5	0.8
	Ore Grade	g/t	2.24		–	–	2.89	2.61	2.26
	Waste	Mt	89.8		–	–	16.1	15.7	17.0
	Contained Oz	Moz	0.46		–	–	0.09	0.04	0.06
Kerekounda	Ore Mined	Mt	0.9		–	–	0.1	0.8	–
	Ore Grade	g/t	3.26		–	–	1.50	3.53	–
	Waste	Mt	18.0		–	–	7.4	10.6	–
	Contained Oz	Moz	0.09		–	–	0.01	0.09	–
Niakafiri	Ore Mined	Mt	7.8		–	–	–	–	4.6
	Ore Grade	g/t	1.14		–	–	–	–	1.14
	Waste	Mt	22.6		–	–	–	–	12.9
	Contained Oz	Moz	0.29		–	–	–	–	0.17
Total	Ore Mined	Mt	51.3	6.3	5.7	12.8	2.3	3.3	7.7
	Ore Grade	g/t	1.57	1.61	1.56	1.15	2.84	2.60	1.51
	Waste	Mt	348.0	40.1	19.9	33.9	48.6	47.8	44.1
	Contained Oz	Moz	2.58	0.33	0.29	0.47	0.21	0.27	0.37
Stockpile Ore Balance		Mt			10.9	19.7	18.0	17.4	21.2
Stockpile Grade		g/t			0.79	0.77	0.71	0.71	0.70
Contained Oz		Moz			0.27	0.48	0.41	0.40	0.47
Ore Milled		Mt	59.9	3.9	3.4	4.0	4.0	3.8	4.0
Head Grade		g/t	1.46	2.24	2.25	2.05	2.21	2.35	2.31
Oxide		Percent	13%	23%	6%	50%	34%	6%	26%
<b>Rec. oz</b>		<b>Moz</b>	<b>2.553</b>	<b>0.254</b>	<b>0.227</b>	<b>0.242</b>	<b>0.260</b>	<b>0.261</b>	<b>0.271</b>

[illegible]

The estimated ore reserves underpinning the production targets (as defined in the ASX Listing Rules), set out in Table 3 above, have been prepared by Mr. Paul Chawrun, who is a Competent Person, in accordance with the requirements of the JORC Code 2012 with respect to the Sabodala, Stockpiles, Masato, Golouma and Kerekounda ore reserve estimates and the JORC Code 2004 with respect to the Gora and Niakafiri ore reserve estimates.

This production guidance is based on existing proven and probable ore reserves from both the Sabodala mining license and Somigol (90 percent owned by the OJVG) mining license as disclosed in Table 2 above. This production guidance also assumes an amendment to the Somigol mining license to reflect processing of Somigol ore through the Sabodala mill.

Key assumptions: gold spot price/ounce – US\$1,250, light fuel oil – US\$1.00/litre, heavy fuel oil – US\$0.98/litre, US/euro exchange rate – \$1.325

**Table 4: Capital Expenditures**

Sustaining Capex	Unit	2014-2019		AVG	2014	2015	2016	2017	2018
		LOM							
Mining	USDM	25.5	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Processing	USDM	29.5	2.2	3.0	2.0	2.0	2.0	2.0	2.0
Admin. & Other Sustaining	USDM	11.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Community Relations	USDM	25.0	4.2	–	–	8.3	8.3	8.3	8.3
<b>Total Sustaining Capex</b>	<b>USDM</b>	<b>91.3</b>	<b>10.9</b>	<b>7.5</b>	<b>6.5</b>	<b>14.8</b>	<b>14.8</b>	<b>14.8</b>	<b>14.8</b>
<b>Capital Projects &amp; Development</b>	<b>USDM</b>								
OJVG & Gora Development	USDM	62.1	10.3	7.0	42.0	12.2	–	–	0.9
Government Waiver Payments	USDM	16.9	2.8	10.0	4.2	–	–	–	2.7
Other Projects & Development	USDM	3.0	0.5	–	–	3.0	–	–	–
<b>Total Projects and Development</b>	<b>USDM</b>	<b>82.0</b>	<b>13.7</b>	<b>17.0</b>	<b>46.2</b>	<b>15.2</b>	<b>–</b>	<b>–</b>	<b>3.6</b>
<b>Combined Total (USDM)</b>	<b>USDM</b>	<b>173.2</b>	<b>24.6</b>	<b>24.5</b>	<b>52.7</b>	<b>30.0</b>	<b>14.8</b>	<b>14.8</b>	<b>18.4</b>

**Table 5: Operating Cost**

Activity	Unit	2014-2019		AVG	2014	2015	2016	2017	2018
		LOM							
Mining	USD/t mined	2.55	2.53	2.85	2.39	2.51	2.54	2.49	2.49
Processing	USD/t milled	17.78	17.26	18.50	16.01	17.35	18.01	16.93	16.93
General & Admin.	USDM	165	15	18	16	15	14	14	14
Mining	USDM	1,014	117	71	112	128	130	129	129
Processing	USDM	1,072	67	65	64	70	68	68	68
General & Admin.	USDM	165	15	18	16	15	14	14	14
Refining & Freight	USDM	13	1	1	1	1	1	1	1
Byproduct Credits	USDM	(5)	(0)	(0)	(0)	(0)	(0)	(0)	(1)
<b>Total Operating Costs</b>	<b>USDM</b>	<b>2,259</b>	<b>200</b>	<b>154</b>	<b>193</b>	<b>213</b>	<b>213</b>	<b>212</b>	<b>212</b>
Deferred Stripping Adjustment <sup>2</sup>	USDM	(3)	(1)	(3)	–	–	–	–	–
Inventory Adjustment	USDM	62	(26)	(17)	(52)	(30)	(17)	(17)	(17)
Royalty	USDM	154	15	12	15	16	16	17	17
<b>Total Cash Costs<sup>1</sup></b>	<b>USDM</b>	<b>2,472</b>	<b>190</b>	<b>146</b>	<b>156</b>	<b>200</b>	<b>213</b>	<b>212</b>	<b>212</b>
<b>Total Cash Costs<sup>1</sup></b>	<b>USD/oz</b>	<b>968</b>	<b>745</b>	<b>675</b>	<b>645</b>	<b>768</b>	<b>814</b>	<b>781</b>	<b>781</b>
Capex	USDM	173	25	25	53	30	15	18	18
Capitalized Deferred Stripping	USDM	3	1	3	–	–	–	–	–
Capitalized Reserve Development	USDM	9	2	5	4	–	–	–	–
Corporate Admin.	USDM	142	14	16	15	14	14	14	14
<b>All-In Sustaining Cash Costs<sup>1</sup></b>	<b>USDM</b>	<b>2,799</b>	<b>231</b>	<b>194</b>	<b>227</b>	<b>244</b>	<b>242</b>	<b>245</b>	<b>245</b>
<b>All-In Sustaining Cash Costs<sup>1</sup></b>	<b>USD/oz</b>	<b>1,096</b>	<b>906</b>	<b>838</b>	<b>941</b>	<b>937</b>	<b>925</b>	<b>901</b>	<b>901</b>

<sup>1</sup> Total cash costs per ounce and all-in sustaining costs per ounce are non-IFRS financial measures and do not have a standard meaning under IFRS. Please refer to non-IFRS Performance Measures at the end of this report.

<sup>2</sup> Excludes any deferred stripping adjustment beyond 2014 as required by IFRIC 20.

2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
4.0	3.5	0.5	–	–	–	–	–	–	–	–
2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.5	–
1.0	1.0	1.0	0.8	0.5	0.5	0.5	0.5	0.3	0.3	–
–	–	–	–	–	–	–	–	–	–	–
<b>7.0</b>	<b>6.5</b>	<b>3.5</b>	<b>2.8</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.3</b>	<b>0.8</b>	<b>–</b>

–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
<b>7.0</b>	<b>6.5</b>	<b>3.5</b>	<b>2.8</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.3</b>	<b>0.8</b>	<b>–</b>

2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
2.55	2.50	2.53	2.66	–	–	–	–	–	–	–
16.98	17.59	17.86	18.01	18.26	18.26	18.26	18.26	18.26	18.26	18.26
14	14	14	10	6	6	6	6	6	4	2
134	95	104	112	–	–	–	–	–	–	–
68	67	68	68	69	70	69	69	69	73	46
14	14	14	10	6	6	6	6	6	4	2
1	1	1	1	1	0	0	0	0	0	0
(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
<b>216</b>	<b>176</b>	<b>186</b>	<b>191</b>	<b>76</b>	<b>76</b>	<b>76</b>	<b>76</b>	<b>76</b>	<b>77</b>	<b>48</b>
–	–	–	–	–	–	–	–	–	–	–
(22)	(28)	(48)	16	51	37	39	39	39	37	35
17	9	6	15	6	5	5	5	5	4	3
<b>211</b>	<b>157</b>	<b>144</b>	<b>221</b>	<b>133</b>	<b>118</b>	<b>119</b>	<b>119</b>	<b>119</b>	<b>119</b>	<b>86</b>
<b>796</b>	<b>1,085</b>	<b>1,479</b>	<b>873</b>	<b>1,307</b>	<b>1,512</b>	<b>1,533</b>	<b>1,535</b>	<b>1,535</b>	<b>1,589</b>	<b>1,935</b>
7	7	4	3	3	3	3	3	2	1	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
14	14	14	8	4	4	3	2	2	2	2
<b>232</b>	<b>178</b>	<b>161</b>	<b>232</b>	<b>140</b>	<b>124</b>	<b>124</b>	<b>123</b>	<b>123</b>	<b>121</b>	<b>88</b>
<b>875</b>	<b>1,226</b>	<b>1,659</b>	<b>915</b>	<b>1,371</b>	<b>1,595</b>	<b>1,604</b>	<b>1,593</b>	<b>1,590</b>	<b>1,626</b>	<b>1,980</b>

### Gora Development

Gora, hosting 0.29 million ounces of proven and probable reserves (see Table 2) at 4.74 g/t, is planned to be operated as a satellite to the Sabodala mine requiring limited local infrastructure and development. Ore will be hauled to the Sabodala processing plant by a dedicated fleet of trucks and processed on a priority basis, displacing lower-grade feed as required.

A technical report and an environmental and social impact assessment ("ESIA") have been provided to the Senegalese Government, and the permit approval process is ongoing.

Management expects the permit process to be completed in 2014 and construction to be initiated in 2015 based on the new integrated LOM plan with the OJVG.

### Sabodala Mine License Reserve Development

The Sabodala Mine License ("ML") covers 33km<sup>2</sup> and, in addition to the mine-related infrastructure, contains the Sabodala, Masato, Niakafiri, Niakafiri West, Soukhoto and Dinkokhono deposits.

The drill program on the ML was completed during the first quarter 2013 with 11,700 metres drilled. The 2014 drill program will be integrated into the combined Sabodala/OJVG reserve delineation program.

#### *Sabodala*

The drill program at Sabodala was completed in the first quarter of 2013, with results returned by mid-April 2013. Drilling targeted the MFE immediately adjacent to the current ultimate pit, as well as additional mineralization located below the MFE, to upgrade and increase mineral resources. Drilling successfully confirmed continuation of these zones, and updated resource and reserve models were generated.

Waste dump condemnation drilling to the southeast of the Sabodala pit was completed in the first quarter of 2013.

#### *Niakafiri*

The timing of a planned drill program at the Niakafiri deposit along strike is under review in light of both the decrease in gold prices and the acquisition of the OJVG, which has led to a re-evaluation of priorities.

Additional surface mapping was carried out at Niakafiri in conjunction with the re-logging of several diamond drill holes with a view to updating the geological model for the Niakafiri deposit.

#### *Masato North*

A preliminary drill program consisting of six holes was completed to test the northern extent of the Niakafiri Shear Zone, adjacent to the ML boundary. Narrow mineralized low-grade zones were intersected, with future analysis planned.

### OJVG Mine License

The OJVG Mine License covers 213km<sup>2</sup>. As we have integrated the OJVG geological database into a combined LOM plan, a number of areas have been revealed as potential sources for reserves addition within the mining lease. These targets have been selected based on potential for discovery and inclusion into open pit reserves.

The high-grade "cores" in Masato that were not included in the current reserves estimate will be targeted in 2014 so that the mineralization characteristics can be better understood and then modelled.

Additional areas targeted include additions to the measured resources at the Golouma and Kerekounda deposits for potential to extend the currently designed pit shells, and to explore near surface oxide targets along a 4km long mineralized trend that includes the existing resources of Niakafiri, Niakafiri SE and Maki Medina.

### Regional Exploration

The Company currently has nine exploration permits encompassing approximately 1,055km<sup>2</sup> of land surrounding the Sabodala and OJVG Mine Licenses (246km<sup>2</sup> exploitation permits). Over the past three years, with the initiation of a regional exploration program on this significant land package, a tremendous amount of exploration data has been systematically collected and interpreted to prudently implement follow-up programs. Targets are therefore in various stages of advancement and are then prioritized for follow-up work and drilling. Early geophysical and geochemical analysis of these areas has led to the demarcation of at least 50 anomalies, targets and prospects and the Company expects that several of these areas will ultimately be developed into mineable deposits. The Company has identified some key targets that, though early stage, display significant potential. However, due to the sheer size of the land position, the process of advancing an anomaly through to a mineable deposit takes time with a systematic approach to maximize potential for success.

The exploration team uses a disciplined screening process to optimize the potential for success in exploring the myriad of high-potential anomalies located within the Regional Land Package.

The Ninienko, Soreto/Diabougou and Garabourea prospects all demonstrate significant surface mineralization and geochemical and geophysical markers within consistent geological zones for gold mineralization providing potential for significant discoveries. These prospects along with other smaller potentially satellite deposits are planned to undergo various stages of trenching, reverse circulation ("RC") and diamond drilling hole ("DDH") programs.

## Health and Safety

Health and safety is a constant and overriding priority at Sabodala. It comes first in all regards and everyone is continuously reminded to consider safety first. Each daily meeting begins with a safety report and every site report whether it is daily, weekly, monthly or annually begins with safety. The Company is emphatic about keeping health and safety top of mind. The Operational Health and Safety (“OHS”) program has matured in 2013. Pivotal to the yearly results were the intensive training and rigorous application of the OHS management plans. The focus is still placed on proactive, people-based safety management which uses a documented systematic approach. 2014 will focus on management of change and vertical integration of prevention tools. As the Company continues to develop the OHS programs there will be a strong focus for these programs to penetrate into the workforce.

## Corporate Social Responsibility

A key component of the Company’s vision is to set the benchmark for responsible gold mining in Senegal. As the first gold mine in Senegal, the Company has a unique opportunity to set the industry standard for socially responsible mining in the country maximizing the economic and social development outcomes for the communities around its mine, as well as across Senegal.

In the areas influenced by our mining operations, the Company’s efforts continue to focus on maximizing the long-term benefits of the mining operation to the people in the region and generally fall into one of four main categories: Health and Safety; Water and Sanitation; Education; and Food security. The Company’s annual program for health promotion continued with the anti-malaria spray programs in the villages around the mine site as well as a vaccination program for the local community of Khossanto. In addition, the Company financed the construction of a pediatric facility for the hospital in the regional capital of Kedougou approximately 50 kilometres from the mine, which should be operational in 2014. Teranga continually participates in the extension and rehabilitation of water infrastructure in and around the operations. A major initiative in 2013 was the completion of a water supply system providing potable water to the two villages closest to the Sabodala mine. Regarding education, during 2013, the Company supported various projects including funding the bursaries for students in the regional capital of Kedougou to attend international schools in addition to supporting Kedougou students studying in the Country’s capital, Dakar. At the local level, the Company refurbished and improved school facilities in three villages and provided uniforms to the Sabodala High School. As part of our food security and livelihood program, the Company’s focus in 2013 was on financing income-generating activities. Teranga extended its local poultry farming program established in 2012 and sup-

ported several regional women associations that are working on the development of income-generating activities and food security. The Company hired an agronomist to help with the development and implemented of four market gardens, four fruit tree orchards and four pilot farms as part of our compensation framework for resettlement.

At the beginning of 2014, the Company completed a comprehensive regional development strategy. The Teranga Development Strategy which took a collaborative approach, and was based on two years of round table discussion with various stakeholders, including local, regional and national representatives, sets out a long-term vision for the Company’s presence in Senegal, and provides intended Company actions that are expected to maximize the benefits for the communities in its area of influence.

## Market Review – Impact of Key Economic Trends



Source: <http://www.lbma.org.uk>

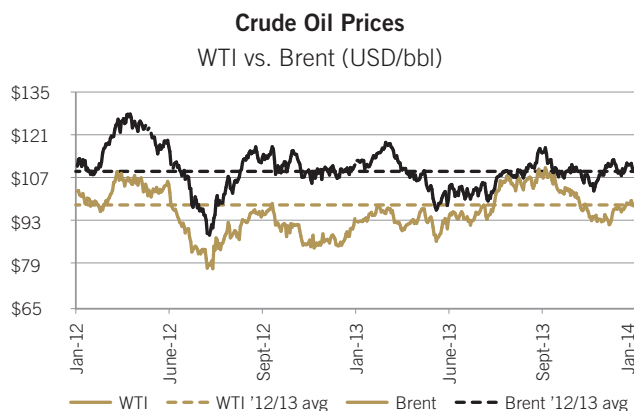
The price of gold is the largest factor in determining our profitability and cash flow from operations. During 2013, the average market price of gold was \$1,411 per ounce, with gold trading between a range of \$1,192 and \$1,694 per ounce based on the London PM Fix gold price. This compares to an average of \$1,669 per ounce during 2012, with a low of \$1,540 per ounce and a high of \$1,792 per ounce.

The price of gold is subject to volatile price movements over short periods of time and is affected by numerous industry and macroeconomic factors that are beyond our control including, but not limited to, currency exchange rate fluctuations and the relative strength of the U.S. dollar, the supply of and demand for gold and macroeconomic factors such as the level of interest rates and inflation expectations. The 2013 year marked the first decline in the annual average gold price in 12 years. Throughout 2013 encouraging comments from the U.S. Federal Reserve on the economic outlook, including rising employment and increasing equity markets, led many to believe that the very accommodative monetary policy would be tightened. This led many market participants, particularly in the U.S., to reduce gold holdings, mostly through invest-

ment vehicles such as Exchange Traded Funds (“ETFs”), in favour of higher-yielding assets such as equities. Gold ETF holdings decreased by 880 tonnes or 33 percent, a clear indicator that the investment appeal for gold had decreased in an apparently stronger global economic environment.

Conversely, consumer demand for gold for jewelry, bars and coins was notably strong. The Chinese have continued to maintain a strong interest in physical gold as lower prices encourage further buying. This persistent interest has proven integral in supporting the gold price from further declines as India's role as a large consumer has been slightly diminished as the Indian Government attempts to moderate gold demand through increased taxes on gold and other imports. Some market participants believe that the policy may be eased, with a strengthening rupee either a few months before or after the May election and possibly sooner with the end-of-February budget. This should provide a boost to the gold price, however, full-year imports are still expected to be lower than either 2012 or 2011.

While the gold market is affected by fundamental global economic changes, we are also aware that the market is strongly impacted by expectations, both positive and negative. We appreciate that institutional commentary can affect such expectations. As such, the priority of Teranga is to execute on our strategy with effective management of the Sabodala operations and exploration programs.



Source: <http://www.eia.gov/>

Fuel costs for power generation and operation of the mobile fleet are the single largest cost to the Sabodala mine. Fuel purchased to operate the power plant and mobile equipment fleet totalled approximately \$50 million in 2013 or approximately 30 percent of operating costs.

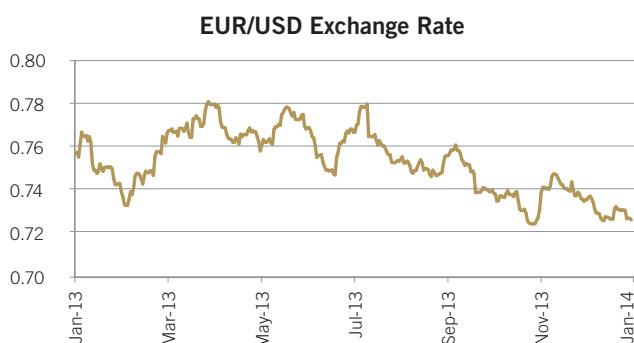
The Sabodala operation is located in remote southeastern Senegal and it is necessary to generate our own power. Six, 6 megawatt Wartsila (diesel generator engines) provide power for the operations. In 2013, the operations consumed approximately 29 million litres of HFO. This equates to approximately

\$0.22/kWhr, which is less than the cost of grid electricity in industrialized Senegal.

Sabodala consumes Brent crude oil and we forecast that in 2014 we will consume approximately 45 million litres of oil, less than in 2013 in line with lower material movement in the mine.

Since the start of 2014, signs of potentially slowing economic growth in the U.S., China and emerging markets raised concerns about fuel demand while forecasts of excess supply in 2014 weighed on oil prices. The forecasters expect Brent prices to weaken as regional supply recovers, led by Iran and Libya. However, the risk of supply disruptions in the Middle East and elsewhere remains, which could drive crude oil prices higher.

The Company had previously hedged a portion of its exposure to fuel costs using crude oil forward contracts. These contracts matured quarterly through to March 31, 2013. Management may enter into further oil hedge contracts should the price and terms be deemed acceptable.



Source: <http://www.oanda.com/>

A significant portion of operating costs and capital expenditures of Sabodala gold mine operations are denominated in currencies other than U.S. dollars. Historical accounts payables records demonstrate that the Company has an approximate 70 percent Euro currency exposure via West African CFA Franc, which is pegged directly with the Euro currency.

The Euro currency gained 4.3 percent against the U.S. dollar in 2013. For most of the year, currency trading revolved around the U.S. Federal Reserve's (“Fed’s”) anticipated tightening of monetary policy, which grew more likely as U.S. economic data improved. At its December meeting, the Fed said it would reduce its monthly asset purchases to \$75 billion in January from \$85 billion. Then at its January 2014 meeting, the Fed reduced its purchases by a further \$10 billion to \$65 billion. However, a \$20 billion reduction in monthly bond purchases still leaves the U.S. central bank with an expanding balance sheet, which had contrasted with the shrinking balance sheet of the European Central Bank (“ECB”), thus favouring the Euro currency. In early Febru-



ary 2014, the Euro currency fell after weaker-than-forecast inflation data. With the ECB's main interest rate at a record low of 0.25 percent, some market participants are expecting the ECB to start buying bonds to loosen monetary conditions, which may put downward pressure on the Euro currency.

Generally, as the U.S. dollar strengthens, the Euro currency and other currencies weaken, and as the U.S. dollar weakens, the Euro currency strengthens. All of the Company's production comes from its operations in Senegal therefore costs will continue to be exposed to foreign exchange rate movements. The Company continues to monitor currency exposure on an ongoing basis and will implement a hedging strategy if deemed appropriate.

## FINANCIAL CONDITION REVIEW

### SUMMARY BALANCE SHEET

(US\$000s)		Year ended December 31	
Balance Sheet	2013	2012	
Cash and cash equivalents <sup>1</sup>	34,961	39,722	
Trade and other receivables	7,999	6,482	
Inventories	131,172	107,669	
Other assets	450,267	410,668	
<b>Total assets</b>	<b>624,399</b>	<b>564,541</b>	
Trade and other payables	56,891	44,823	
Borrowings	74,369	68,608	
Other liabilities	27,046	63,800	
<b>Total liabilities</b>	<b>158,306</b>	<b>177,231</b>	
<b>Total equity</b>	<b>466,093</b>	<b>387,310</b>	

<sup>1</sup> Includes restricted cash of \$20.0 million at December 31, 2013.

### Balance Sheet Review

#### Assets

The Company's cash balance at December 31, 2013 was \$35.0 million, including \$20.0 million in restricted cash. The Company also had \$7.3 million in gold bullion receivable at the end of the period.

Inventory costs have increased by \$23.5 million in part due to an increase in bullion inventory to 8,750 ounces at December 31, 2013. Costs for inventory in stockpiles and gold in circuit increased mainly as a result of higher total mining costs during the current year.

#### Trade and Other Payables

Trade and other payables include royalties and other amounts owed to the Government of Senegal. The increase over the prior-year period is mainly due to accrued costs related to the acquisition of Oromin and the OJVG.

#### Borrowings

During the first quarter of 2013, the Company entered into a new \$50.0 million finance lease facility with Macquarie ("Equipment Facility"). The lease facility replaces the finance lease facility previously in place with Société Générale, which was assigned and novated to Macquarie. The proceeds have been put towards additional equipment for the Sabodala pit. During the fourth quarter of 2013, the Company cancelled the undrawn commitment from the Equipment Facility.

During the third quarter of 2013, the Company amended its existing \$60.0 million loan facility agreement with Macquarie ("Loan Facility"). The amended agreement had extended the final repayment date of its existing loan facility agreement by one year to June 30, 2015. The Company was required to maintain a restricted cash balance of up to \$20.0 million and \$40.0 million of the loan facility was to have been repaid in five equal quarterly instalments beginning on June 30, 2014. The final \$20.0 million was scheduled to be repaid with the final instalment on June 30, 2015. As at December 31, 2013, the Company was not permitted to withdraw any portion of the \$20.0 million restricted cash balance as the Project Life Ratio was less than the required 2.2:1. In addition, the Company was not in compliance with all of its financial covenants: as a result, the entire \$60.0 million Loan Facility was classified within current borrowings.

Subsequent to year-end on January 15, 2014, the Company amended the Loan Facility and retired half of the balance of \$30.0 million. The remaining balance of \$30.0 million is scheduled to be repaid in three quarterly instalments of \$5.0 million beginning on March 31, 2014. The final \$15.0 million will be repaid on December 31, 2014. The amended Loan Facility agreement replaced the restricted cash requirement with a minimum liquidity threshold of \$15.0 million and removes the Project Life Ratio financial covenant.

*Other Liabilities*

Other liabilities at December 31, 2013 are comprised of provisions for expenditures at the end of the mine's operational

life, including expenditures for mine restoration and social funding. The reduction from the prior year is due to the elimination of gold forward sales contracts in the first half of 2013.

**LIQUIDITY AND CASH FLOW****Cash Flow**

(US\$000s)

Year ended December 31

<b>Cash Flow</b>	<b>2013</b>	<b>2012</b>
Operating	74,307	104,983
Investing	(89,018)	(111,993)
Financing	(10,481)	39,678
Effect on exchange rates on holdings in foreign currencies	431	(415)
Change in cash and cash equivalents during period	(24,761)	32,252
<b>Cash and cash equivalents – beginning of period</b>	<b>39,722</b>	<b>7,470</b>
<b>Cash and cash equivalents – end of period</b>	<b>14,961</b>	<b>39,722</b>
Restricted cash	20,000	–
<b>Cash and cash equivalents, including restricted cash</b>	<b>34,961</b>	<b>39,722</b>

*Operating Cash Flow*

(US\$000s)

Year ended December 31

<b>Changes in working capital</b>	<b>2013</b>	<b>2012</b>
Decrease/(increase) in trade and other receivables	(1,613)	13,965
Decrease/(increase) in other assets	1,108	5,915
Increase/(decrease) in trade and other payables	5,505	5,660
Increase/(decrease) in provisions	(188)	1,030
<b>Net change in working capital</b>	<b>4,812</b>	<b>26,570</b>

Operating cash flow for the year ended December 31, 2013 provided cash of \$74.3 million compared to \$105.0 million cash provided in the prior year. The decrease in operating cash flow was mainly due lower revenue and gross profit in

the current year. In the prior-year period, the settlement of a large gold shipment made at the end of 2011 was received at the beginning of 2012.

*Investing Cash Flow*

(US\$000s)

Year ended December 31

<b>Capital Expenditures</b>	<b>2013</b>	<b>2012</b>
Mine site & development capital	22,267	57,166
Capitalized reserve development	3,524	26,086
Capitalized deferred stripping	43,264	32,533
<b>Total Capital Expenditures</b>	<b>69,056</b>	<b>115,785</b>

Net cash used in investing activities for the year ended December 31, 2013 was \$89.0 million compared to \$112.0 million in the prior-year period. The decrease was due to lower development capital as the mill expansion was completed in 2012 and lower capitalized reserve development expenditures in the current year, partially offset by higher capitalized deferred stripping costs and an increase in restricted cash of \$20.0 million.

*Financing Cash Flow*

Net cash used by financing activities for the year ended December 31, 2013 was \$10.5 million compared to net cash

provided by financing activities of \$39.7 million for the year ended December 31, 2012. Net cash used by financing activities for the year ended December 31, 2013 includes proceeds of \$12.8 million received from the finance lease facility with Macquarie, repayment of borrowings of \$12.3 million and interest paid on borrowings of \$7.1 million. Financing cash flows in 2012 includes proceeds from the loan facility of \$58.0 million, net of deferred financing costs, and proceeds from the finance lease facility of \$2.9 million, partially offset by repayments of the finance lease facility of \$16.8 million and interest paid on borrowings of \$4.1 million.

## Liquidity and Capital Resources Outlook

The Company's cash position at December 31, 2013 was \$42.3 million, including bullion receivable and restricted cash of \$20 million. At \$1,250 per ounce gold, the Company expects to generate sufficient cash flow to retire the balance of the Loan Facility and the majority of the mobile equipment loan. However, the Company's cash position is highly dependent on the gold price. The Company is continually reviewing operating, development and exploration expenditures in order to ensure adequate liquidity and flexibility exists to support debt repayments. While our objective is to repay the outstanding balance of the Loan Facility in 2014, the Company may look to extend the repayment terms beyond 2014, should lower gold prices materialize, or review other alternatives to ensure sufficient liquidity is maintained by the Company.

## OFF-BALANCE-SHEET ARRANGEMENTS

The Company has no off-balance-sheet arrangements.

## FINANCIAL INSTRUMENTS

The Company manages its exposure to financial risks, including liquidity risk, credit risk, currency risk, market risk, interest rate risk and price risk through a risk mitigation strategy.

Teranga does not acquire or issue derivative financial instruments for trading or speculation.

The Company had established gold forward sales contracts and oil energy swaps to manage exposure to commodity price risk as a condition of the Project Finance Facility provided by Macquarie Bank Limited.

Earlier in the year, the Company bought back the remaining "out of the money" gold forward sales contracts at a cost of \$8.6 million and the oil hedge contracts were completed at March 31, 2013.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

### Working Capital Requirements

The Company's working capital requirements primarily relate to the mining costs of extracting ore from the Sabodala gold mine and then the costs involved in processing the ore to remove the gold, before the gold itself is sold.

As at December 31, 2013, the Company had the following payments due on contractual obligations and commitments:

#### Payments Due by Period (US\$ millions)

	Total	< 1 year	1–3 years	4–5 years	>5 years
Mining Fleet Lease Facility <sup>1</sup>	17.0	12.8	4.2	–	–
2-year Loan Facility <sup>2</sup>	60.0	60.0	–	–	–
Exploration commitments <sup>3</sup>	11.2	–	11.2	–	–
Government of Senegal payments <sup>4</sup>	27.0	6.1	5.9	–	15.0
Oromin office premises lease agreement <sup>5</sup>	1.0	0.2	0.7	0.1	–
<b>Total</b>	<b>116.2</b>	<b>79.1</b>	<b>22.0</b>	<b>0.1</b>	<b>15.0</b>

<sup>1</sup> During the first quarter of 2013, the Company entered into a \$50 million finance lease facility with Macquarie. The facility bears interest of LIBOR plus 7.5 percent and is repayable quarterly over the next two years.

<sup>2</sup> Reflects a 2-year Loan Facility concluded with Macquarie in June 2012. The Loan Facility bears interest of LIBOR plus a margin of 10 percent. During the third quarter, the Loan Facility was amended and extended the final repayment date by one year to June 30, 2015. Subsequent to year-end, \$30 million of the Loan Facility was retired. \$15 million of the outstanding balance will be repaid in three equal quarterly instalments beginning on March 31, 2014 and the remaining \$15 million will be repaid on December 31, 2014.

<sup>3</sup> Reflects the exploration permits, licenses and drilling contracts committed to by the Company. The "exploration commitments" only represent the amounts the Company is required to spend to remain eligible for the renewal of permits beyond the current validity period. The Company may elect to allow certain permits to expire and is not required to spend the "committed" amount per respective permit. The Company will not incur any penalties for not meeting the financial requirement for additional validity period tenure.

<sup>4</sup> Includes a payment of \$2.8 million calculated on the basis of \$6.50 for each ounce of new reserves until December 31, 2012, an expected payment of \$1.2 million for the settlement of tax adjustments related to three outstanding tax assessments, a social fund payment of \$15.0 million to be made to the Government of Senegal and an estimated payment of \$8.0 million of accrued dividends.

<sup>5</sup> Pursuant to Oromin's lease agreement which was extended in July 2012, the Company holds a lease on its office premises in Vancouver, Canada, which terminates May 31, 2018. The Company is in the process of pursuing a tenant to sub-lease the property for the duration of the lease.

## Sabodala Operating Commitments

The Company faces the following operating commitments in respect of the Sabodala gold operation:

Pursuant to the Company's Mining Concession, a royalty of 5 percent is payable to the Republic of Senegal based on the value of gold shipments, evaluated at the spot price on the shipment date.

\$425 thousand per year is payable for social development of local authorities in the surrounding Tambacounda region during the term of the Mining Concession.

\$30 thousand per year is payable for logistical support of the territorial administration of the region from date of notification of the Mining Concession.

\$200 thousand per year of production is payable for training of Directorate of Mines and Geology officers and Mines Ministry.

### **OJVG Operating Commitments**

The Company faces the following operating commitments in respect of the OJVG project:

\$450 thousand per year is payable for social development of local authorities in the surrounding Kedougou Region during the term of the Mining Concession. This payment increases to \$800 thousand once the mine is in production.

\$150 thousand per year is payable for logistical support of the territorial administration of the region from date of notification of the Mining Concession.

### **Oromin Operating Commitments**

Pursuant to Oromin's lease agreement which was extended in July 2013, the Company holds a lease on its office premises in Vancouver, Canada, which terminates May 31, 2018. The Company is committed to lease payments with annual amounts payable of approximately \$235 thousand. The Company is in the process of pursuing a tenant to sub-lease the property for the duration of the lease.

## **CONTINGENT LIABILITIES**

During the second quarter of 2013, the Company signed a definitive global agreement with the Republic of Senegal. A component of the agreement relates to the settlement of outstanding tax assessments and special contribution payment.

### **Settled and Outstanding Tax Assessments**

During the second quarter of 2013, the Company made a payment of \$1.4 million in full settlement of the Sabodala Mining Company SARL ("SMC") tax assessment received in January 2013. The Company also made a payment of \$1.2 million in partial settlement of the Sabodala Gold Operations SA ("SGO") tax assessment received in December 2012. The final payment for the tax settlement of \$1.2 million has been accrued and is expected to be paid in 2014.

Approximately \$18 million of the SGO 2011 tax assessment of approximately \$24 million has been resolved and approximately \$6 million remains in dispute. We believe that the remaining amount in dispute is without merit and that these issues will be resolved with no or an immaterial amount of tax due.

### **Government Payments**

During the second quarter of 2013, the Company made a payment of \$2.7 million related to accrued dividends to the Republic of Senegal in respect of its existing 10 percent minority interest. A payment of \$2.7 million will be required once drilling activities recommence at Niakafiri. The Company has also agreed to advance an estimated \$8.0 million of accrued dividends to be paid in 2014 and 2015 which was

estimated based on a gold price of \$1,600 per ounce. For the year ended December 31, 2013, approximately \$5.2 million has been accrued based on net sales revenue.

The Company is required to make a payment of approximately \$4.2 million related to the waiver of the right for the Republic of Senegal to acquire an additional equity interest in the Gora project. The payment is expected to be made upon receipt of all required approvals authorizing the processing of all Gora project ore through the Sabodala plant.

The Company has agreed to establish a social development fund targeted at \$15.0 million, payable to the Republic of Senegal at the end of the operational life. The payment, after applying a discount rate, has been recorded as a liability as at December 31, 2013.

With the completion of the acquisition of the OJVG in January 2014, the Company is required to make a payment of \$10.0 million related to the waiver of the right for the Republic of Senegal to acquire an additional equity interest in the Somigol project. The payment is expected to be made upon receipt of all permits required to integrate the Somigol project into the SGO mining concession.

### **OJVG Tax Assessment**

In 2012, the OJVG received a tax assessment from the Senegalese tax authorities claiming withholding tax on payments made to third parties during 2009 to 2012 and \$1.3 million was accrued during this period. During the third quarter of 2013, OJVG received a revised tax assessment for approximately \$0.7 million, including penalties, and accordingly reversed \$0.6 million of the original accrual. During the fourth quarter of 2013, the tax dispute was resolved and a payment of \$0.2 million was made in full settlement.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Certain accounting estimates have been identified as being "critical" to the presentation of our financial condition and results of operations because they require us to make subjective and/or complex judgments about matters that are inherently uncertain; or there is a reasonable likelihood that materially different amounts could be reported under different conditions or using different assumptions and estimates. The following is a summary of significant estimates.

### **Non-current Asset Impairment Test**

In the fourth quarter 2013, the Company identified an indicator of impairment of the Sabodala Gold Operations based on continued lower market gold prices which led to lower share prices of gold equities, including our share price. The Com-

pany conducted an impairment assessment during the quarter and determined that the estimated fair value of Sabodala Gold Operations exceeded its carrying value. Consequently, no impairment charge was recorded for the quarter and year ended December 31, 2013.

For the impairment assessment, the price of gold was estimated at \$1,250 per ounce for 2014 and \$1,300 per ounce for 2015 and beyond. The fair value of Sabodala Gold Operations is sensitive to the gold price and as such a decline in the long-term gold price below these estimates may result in an impairment charge being recorded in the future.

### Investment in the OJVG

At December 31, 2013, the Company has determined that its investment in the OJVG qualifies as an interest in a joint arrangement as a contractual arrangement exists between the owners of OJVG resulting in joint control. The joint arrangement qualifies as a joint venture and the Company has applied the equity method of accounting for its interest. For accounting purposes, the Company has accounted for a 50 percent ownership interest in the OJVG as no recognition of Badr's interest in the equity of OJVG would have been made until the commencement of commercial production and the repayment of capital and accrued interest to the Company and Bendon.

On January 15, 2014, the Company acquired the balance of the OJVG that it did not already own. The acquisition of Bendon's and Badr's interests in the OJVG increases Teranga's ownership to 100 percent.

### Fair Value of Derivative Instruments

Management assesses the fair value of the Company's derivatives in accordance with the accounting policy stated in Note 4 to the Annual Consolidated Financial Statements. Fair values have been determined based on well-established valuation models and market conditions existing at the reporting date. These calculations require the use of estimates and assumptions. Changes in assumptions concerning interest rates, gold prices and volatilities could have significant impact on comprehensive income due to the change in the fair value attributed to the Company's derivatives. When these assumptions change or become known in the future, such differences will impact asset and liability carrying values in the period in which they change or become known.

### Ore Reserves

Management makes estimates of the Company's ore reserves based upon information compiled by qualified persons as defined in accordance with the Canadian Securities Administrators' National Instrument 43-101 Standards for Disclosure for Mineral Projects requirements, which is similar to the

Australasian standards. The estimated quantities of economically recoverable reserves are based upon interpretations of geological models and require assumptions to be made regarding factors such as estimates of short- and long-term exchange rates, estimates of short- and long-term commodity prices, future capital requirements and future operating performance. Changes in reported reserve estimates can impact the carrying value of property, plant and equipment, provision for rehabilitation obligations, the recognition of deferred tax assets, as well as the amount of depreciation and amortization charged to the income statement.

### Units of Production ("UOP")

Management makes estimates of recoverable reserves in determining the depreciation and amortization of mine assets. This results in a depreciation/amortization charge proportional to the depletion of the anticipated remaining life-of-mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. The calculations require the use of estimates and assumptions, including the amount of recoverable reserve and estimates of future capital expenditure. The Company's UOP calculation is based on life-of-mine gold production. As the Company updates its estimate regarding the expected UOP over the life of the mine amortization under the UOP basis will change. The Company uses the UOP method when depreciating mining assets which results in a depreciation charge based on the recovered ounces of gold.

### Straight-line Depreciation

The Company uses the straight-line method when depreciating other equipment, office furniture, motor vehicles and finance lease equipment.

### Mine Restoration and Rehabilitation Provision

Management assesses the Company's mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provisions for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and cost of rehabilitation activities, technological changes, regulatory change, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditures differing from the amounts currently provided. The provision at the balance date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the statement of financial position by adjusting the rehabilitation asset and liability.

### Impairment of Assets

Management assesses its cash-generating unit at each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made which is considered to be the higher of the fair value less costs to sell and value in use. This assessment requires the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted by an appropriate discount rate to determine the net present value. Management has assessed its cash-generating unit as being all sources of mill feed through a central mill, which is the lowest level for which cash flows are largely independent of other assets.

### Production Start Date

Management assesses the stage of each mine development project to determine when a mine moves into the production stage. The criteria used to assess the start date of a mine are determined based on the unique nature of each mine development project. The Company considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and moves into the production phase. Some of the criteria include, but are not limited to, the following:

- the level of capital expenditure compared to construction cost estimates;
- completion of a reasonable period of testing of the mine plant and equipment;
- ability to produce metal in saleable form; and
- ability to sustain ongoing production of metal.

When a mine development project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capitalizable costs related to mining asset additions or improvements or mineable reserve development. It is also at this point that depreciation/amortization commences.

### Fair Value of Stock Options

Management assesses the fair value of stock options granted in accordance with the accounting policy stated in Note 4(q) to the Company's Annual Consolidated Financial Statements. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The calculation requires the use of estimates and assumptions. As there were no historical data available for determination of the fair value of the stock options granted, the Company developed its assumptions based on information available in the mining industry using comparable companies operating in the gold sector.

### Functional Currency

The functional currency of each of Company's entities is measured using the currency of the primary economic environment in which that entity operates. The functional currency of all of the entities within the group is U.S. dollars. Functional currency of each entity was determined based on the currency that mainly influences sales prices for goods and services, labour, material and other costs.

### Stripping Costs in the Production Phase of a Surface Mine

Management assesses the costs associated with the stripping activity in the production phase of surface mining: the useable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods, which are estimated by management.

## ADOPTION OF NEW ACCOUNTING STANDARDS

### Stripping Costs in the Production Phase of a Surface Mine

In October 2011, the IASB issued IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity from the stripping activity: useable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. The Company adopted IFRIC 20 on January 1, 2013 and restated the 2012 comparative amounts. The impact of adopting IFRIC 20 to the December 31, 2012 balances included an increase to mine development expenditures of \$29.6 million, a decrease to inventory of \$15.5 million and a decrease to cost of sales of \$14.1 million.



## NON-IFRS FINANCIAL MEASURES

The Company provides some non-IFRS measures as supplementary information that management believes may be useful to investors to explain the Company's financial results.

Beginning in the second quarter of 2013, we adopted an "all-in sustaining costs" measure and an "all-in costs" measure consistent with the guidance issued by the World Gold Council ("WGC") on June 27, 2013. The Company believes that the use of all-in sustaining costs and all-in costs will be helpful to analysts, investors and other stakeholders of the Company in assessing its operating performance, its ability to generate free cash flow from current operations and its overall value. These new measures will also be helpful to governments and local communities in understanding the economics of gold mining. The "all-in sustaining costs" is an extension of existing "cash cost" metrics and incorporate costs related to sustaining production. The "all-in costs" includes additional costs which reflect the varying costs of producing gold over the life-cycle of a mine.

"Total cash cost per ounce sold" is a common financial performance measure in the gold mining industry but has no standard meaning under IFRS. The Company reports total cash costs on a sales basis. We believe that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The measure, along with sales, is considered to be a key indicator of a Company's ability to generate operating earnings and cash flow from its mining operations.

Total cash costs figures are calculated in accordance with a standard developed by The Gold Institute, which was a worldwide association of suppliers of gold and gold products and included leading North American gold producers. The Gold Institute ceased operations in 2002, but the standard is considered the accepted standard of reporting cash cost of production in North America. Adoption of the standard is voluntary and the cost measures presented may not be comparable to other similarly titled measures of other companies.

The WGC definition of all-in sustaining costs seeks to extend the definition of total cash costs by adding corporate general and administrative costs, reclamation and remediation costs

(including accretion and amortization), exploration and study costs (capital and expensed), capitalized stripping costs and sustaining capital expenditures and represents the total costs of producing gold from current operations. The WGC definition of all-in costs adds to all-in sustaining costs including capital expenditures attributable to projects or mine expansions, exploration and study costs attributable to growth projects, and community and permitting costs not related to current operations. Both all-in sustaining and all-in costs exclude income tax payments, interest costs, costs related to business acquisitions and items needed to normalize earnings. Consequently, this measure is not representative of all of the Company's cash expenditures. In addition, the calculation of all-in sustaining costs and all-in costs does not include depreciation expense as it does not reflect the impact of expenditures incurred in prior periods. Therefore, it is not indicative of the Company's overall profitability.

"Total cash costs", "all-in sustaining costs" and "all-in costs" are intended to provide additional information only and do not have any standardized definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The measures are not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Other companies may calculate these measures differently. The following tables reconcile these non-GAAP measures to the most directly comparable IFRS measure.

"Average realized price" is a financial measure with no standard meaning under IFRS. Management uses this measure to better understand the price realized in each reporting period for gold and silver sales. Average realized price excludes from revenues unrealized gains and losses on non-hedge derivative contracts. The average realized price is intended to provide additional information only and does not have any standardized definition under IFRS; it should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Other companies may calculate this measure differently.

"Total depreciation and amortization per ounce sold" is a common financial performance measure in the gold mining industry but has no standard meaning under IFRS. It is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.



**Total cash costs per ounce sold, all-in sustaining costs per ounce sold, all-in costs per ounce sold and total depreciation per ounce sold are calculated as follows:**

(US\$000s, except where indicated)	Three months ended December 31		Year ended December 31	
Cash costs per ounce sold	2013	2012	2013	2012
Gold produced <sup>1</sup>	52,368	71,804	207,204	214,310
Gold sold	46,561	71,604	208,406	207,814
<b>Cash costs per ounce sold</b>				
Cost of sales	50,527	57,250	196,505	165,238
Less: depreciation and amortization	(26,702)	(20,534)	(77,902)	(55,645)
Less: realized oil hedge gain	—	(365)	(487)	(1,936)
Add: non-cash inventory movement	9,231	2,448	15,094	8,822
Less: other adjustments	41	(737)	358	(893)
<b>Total cash costs</b>	<b>33,097</b>	<b>38,062</b>	<b>133,568</b>	<b>115,586</b>
<b>Total cash costs per ounce sold</b>	<b>711</b>	<b>532</b>	<b>641</b>	<b>556</b>
<b>All-in sustaining costs</b>				
Total cash costs	33,097	38,062	133,568	115,585
Administration expenses <sup>2</sup>	2,753	5,332	12,650	17,996
Capitalized deferred stripping	1,444	3,268	43,264	32,535
Capitalized reserve development	529	5,671	3,524	26,086
Mine site capital	1,752	19,582	22,267	57,166
<b>All-in sustaining costs</b>	<b>39,575</b>	<b>71,915</b>	<b>215,274</b>	<b>249,367</b>
<b>All-in sustaining costs per ounce sold</b>	<b>850</b>	<b>1,004</b>	<b>1,033</b>	<b>1,200</b>
<b>All-in costs</b>				
All-in sustaining costs	39,575	71,915	215,274	249,367
Social community costs not related to current operations	311	471	1,763	1,558
Exploration and evaluation expenditures	1,043	2,699	5,405	16,657
<b>All-in costs</b>	<b>40,929</b>	<b>75,085</b>	<b>222,442</b>	<b>267,582</b>
<b>All-in costs per ounce sold</b>	<b>879</b>	<b>1,049</b>	<b>1,067</b>	<b>1,288</b>
Depreciation and amortization	26,702	20,534	77,902	55,645
Non-cash inventory movement	(9,231)	(2,448)	(15,094)	(8,822)
<b>Total depreciation and amortization</b>	<b>17,471</b>	<b>18,086</b>	<b>62,808</b>	<b>46,823</b>
<b>Total depreciation and amortization per ounce sold</b>	<b>375</b>	<b>253</b>	<b>301</b>	<b>225</b>

<sup>1</sup> Gold produced represents change in gold in circuit inventory plus gold recovered during the period.

<sup>2</sup> Administration expenses include share-based compensation and exclude Corporate depreciation expense and social community costs not related to current operations.

## OUTSTANDING SHARE DATA

The Company's fully diluted share capital as at the report date was:

Outstanding	February 20, 2014
Ordinary shares	245,618,000
Issued to Oromin shareholders	71,183,091
	316,801,091
Stock options granted at an exercise price of \$3.00 per option	15,826,250
Replacement stock options issued to Oromin employees on change of control	7,911,600
<b>Fully diluted share capital</b>	<b>340,538,941</b>

During the third and fourth quarters of 2013, the Company issued 48,645,840 and 22,537,251 common shares, respectively, as share consideration for the acquisition of all of the remaining Oromin common shares not already owned. As a result, the Company now has 316,801,091 common shares outstanding.

The Company issued 7,911,600 replacement stock options as consideration for the acquisition of Oromin common shares. All options expire 18 months from the grant date of August 6, 2013. The fair value of the replacement options at the grant date was calculated using the Black-Scholes option pricing model with the following assumptions:

	August 6, 2013
Grant date share price	C\$0.28
Exercise price	C\$0.65–C\$1.30
Risk-free interest rate	0.78%–1.53%
Volatility of expected market price of shares	72.62%–94.09%
Expected life of options	0.92–4.04
Dividend yield	0%
Forfeiture rate	0%

## TRANSACTIONS WITH RELATED PARTIES

At December 31, 2013, the Company has a receivable of \$0.4 million due from the OJVG for project management fees.

During the year ended December 31, 2013, there were transactions of \$0.3 million between the Company and a director-related entity.

### Shareholdings

Teranga's 90 percent shareholding in SGO, the company operating the Sabodala gold mine, is held 89.5 percent through Mauritius holding company Sabodala Gold Mauritius Limited ("SGML"), and the remaining 0.5 percent by individuals nominated by SGML to be at the board of directors in order to meet the minimum shareholding requirements under Senegalese law. On death or resignation, a share individually held would be transferred to another representative of SGML or added to its current 89.5 percent shareholding according to the circumstances at the time.

The Company bought 100 percent of Oromin in 2013, which holds a 43.5 percent participating interest in the OJVG.

Subsequent to year-end, the Company acquired the remaining interests in the OJVG that it did not already own.

## CEO/CFO CERTIFICATION

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, for the Company.

The Company's CEO and CFO certify that, as December 31, 2013, the Company's DC&P have been designed to provide

reasonable assurance that material information relating to the Company is made known to them by others, particularly during the period in which the interim filings are being prepared; and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. They also certify that the Company's ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The control framework the Company's CEO and CFO used to design the Company's ICFR is The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). There is no material weakness relating to the design of ICFR. There has been no change in the Company's design of the ICFR that occurred during the year ended December 31, 2013 which has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

The Company has limited the scope of the design of ICFR and DC&P to exclude the controls, policies and procedures of (i) Oromin, the balance sheet and operating results of which are included in the consolidated financial statements of Teranga for the year ended December 31, 2013 following its acquisition on August 6, 2013 and October 4, 2013; and (ii) the OJVG, the operating results and equity investment of which are included in the consolidated financial statements of Teranga for the year ended December 31, 2013. The scope limitation is in accordance with Section 3.3 of NI 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings, which allows an issuer to limit its design of ICFR and DC&P to exclude the controls, policies and procedures of a company acquired not more than 365 days before the end of the financial period to which the certificate relates.

*Oromin Summary Balance Sheet*

(US\$000s)

Year ended December 31

<b>Balance Sheet</b>	<b>2013</b>
Cash and cash equivalents	48
Trade and other receivables	144
Other assets	30
Investment in OJVG	7,231
<b>Total assets</b>	<b>7,452</b>
Trade and other payables	2,063
Intercompany payables	6,356
<b>Total liabilities</b>	<b>8,419</b>
<b>Total equity</b>	<b>(967)</b>

**RISKS AND UNCERTAINTIES**

The Company identified a number of risk factors to which it is subject to in its Annual Information Form filed for the year ended December 31, 2012. These various financial and operational risks and uncertainties continue to be relevant to an understanding of our business, and could have a significant impact on profitability and levels of operating cash flow. These risks and uncertainties include, but are not limited to: fluctuations in metal prices (principally the price of gold), capital and operating cost estimates, borrowing risks, production estimates, need for additional financing, uncertainty in the estimation of mineral reserves and mineral resources, the inherent danger of mining, infrastructure risk, hedging activities, insured and uninsured risks, environmental risks and regulations, government regulation, ability to obtain and renew licenses and permits, foreign operations risks, title to properties, competition, dependence on key personnel, currency, repatriation of earnings and stock exchange price fluctuations.

**AMENDMENTS TO CORPORATE GOVERNANCE PRACTICES****Adoption of Advance Notice By-Law**

On July 18, 2013, at the Company's annual and special meeting, the Company's shareholders confirmed and ratified Board approved amendment to its by-laws to add an advance notice requirement (the "Advance Notice By-Law"), which requires advance notice to be given to the Company in circumstances where nominations of persons for election as a director of the Company are made by shareholders other than pursuant to: (i) a requisition of a meeting made pursuant to the provisions of the Canada Business Corporations Act (the "CBCA"); or (ii) a shareholder proposal made pursuant to the

provisions of the CBCA. Among other things, the Advance Notice By-Law fixes a deadline by which shareholders must submit a notice of director nominations to the Company prior to any annual and special meeting of shareholders where directors are to be elected and sets forth the information that a shareholder must include in the notice for it to be valid.

In the case of an annual meeting of shareholders, notice to the Company must be given not less than 30 nor more than 65 days prior to the date of the annual meeting, however, in the event the meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be made not later than the close of business on the 10th day following such public announcement.

**Majority Voting Policy**

On July 18, 2013, at the Company's annual and special meeting, the Company's shareholders confirmed and ratified a Board-approved majority voting policy (the "Majority Voting Policy") with respect to the election of directors in uncontested elections. In the event that a nominee receives more "withheld" than "for" votes in an uncontested election, he or she will be expected to submit to the Board his or her resignation, to take effect upon acceptance by the Board. The Board, on the recommendation of the corporate governance and nominating committee, will consider the resignation and make its decision to accept or reject such resignation and announce its decision in a news release within 90 days after the shareholder meeting at which the candidacy of the director was considered.

The full text of the Advance Notice By-Law and the Majority Voting Policy are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

*This news release contains certain statements that constitute forward-looking information within the meaning of applicable securities laws (“forward-looking statements”). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Teranga, or developments in Teranga’s business or in its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Forward-looking statements include, without limitation, all disclosure regarding possible events, conditions or results of operations, future economic conditions and courses of action, the proposed plans with respect to mine plan and consolidation of the Sabodala Gold Project and OJVG Golouma Gold Project, mineral reserve and mineral resource estimates, anticipated life-of-mine operating and financial results, targeted date for a NI 43-101 compliant technical report, amendment to the OJVG mining license, the approval of the Gora ESIA and permitting and the completion of construction related thereto. Such statements are based upon assumptions, opinions and analysis made by management in light of its experience, current conditions and its expectations of future developments that management believe to be reasonable and relevant. These assumptions include, among other things, the ability to obtain any requisite Senegalese Governmental approvals, the accuracy of mineral reserve and mineral resource estimates, gold price, exchange rates, fuel and energy costs, future economic conditions and courses of action. Teranga cautions you not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. The risks and uncertainties that may affect forward-looking statements include, among others: the inherent risks involved in exploration and development of mineral properties, including government approvals and permitting, changes in economic conditions, changes in the worldwide price of gold and other key inputs, changes in mine plans and other factors, such as project execution delays, many of which are beyond the control of Teranga, as well as other risks and uncertainties which are more fully described in the Company’s Annual Information Form dated March 27, 2013, and in other company filings with securities and regulatory authorities which are available at [www.sedar.com](http://www.sedar.com). Teranga does not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change. Nothing in this report should be construed as either an offer to sell or a solicitation to buy or sell Teranga securities.*

## COMPETENT PERSONS STATEMENT

*The technical information contained in this document relating to the mineral reserve estimates for Sabodala, the stockpiles, Masato, Golouma and Kerekounda is based on information compiled by Mr. William Paul Chawrun, P. Eng who is a member of the Professional Engineers Ontario, which is currently included as a “Recognized Overseas Professional Organization” in a list promulgated by the ASX from time to time. Mr. Chawrun is a full-time employee of Teranga and is a “qualified person” as defined in NI 43-101 and a “competent person” as defined in the 2012 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Mr. Chawrun has sufficient experience relevant to the style of mineralization and type of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Mr. Chawrun has consented to the inclusion in this Report of the matters based on his compiled information in the form and context in which it appears in this Report.*

*The technical information contained in this document relating to the mineral reserve estimates for Gora and Niakafiri is based on, and fairly represents, information and supporting documentation prepared by Julia Martin, P.Eng. who is a member of the Professional Engineers of Ontario and a Member of AusIMM (CP). Ms. Martin is a full-time employee with AMC Mining Consultants (Canada) Ltd., is independent of Teranga, is a “qualified person” as defined in NI 43-101 and a “competent person” as defined in the 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Ms. Martin has sufficient experience relevant to the style of mineralization and type of deposit under consideration and to the activity she is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Ms. Martin is a “Qualified Person” under National Instrument 43-101 Standards of Disclosure for Mineral Projects. Ms. Martin has reviewed and accepts responsibility for the Mineral Reserve estimates for Gora and Niakafiri disclosed in this document and has consented to the inclusion of the matters based on her information in the form and context in which it appears in this Report.*

*The technical information contained in this Report relating to mineral resource estimates for Niakafiri, Gora, Niakafiri West, Soukhoto, and Diadiako is based on information compiled by Ms. Nakai-Lajoie. Ms. Patti Nakai-Lajoie, P. Geo., is a Member of the Association of Professional Geoscientists of Ontario, which is currently included as a "Recognized Overseas Professional Organization" in a list promulgated by the ASX from time to time. Ms. Nakai-Lajoie is a full-time employee of Teranga and is not "independent" within the meaning of National Instrument 43-101. Ms. Nakai-Lajoie has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which she is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Ms. Nakai-Lajoie is a "Qualified Person" under National Instrument 43-101 Standards of Disclosure for Mineral Projects. Ms. Nakai-Lajoie has consented to the inclusion in this Report of the matters based on her compiled information in the form and context in which it appears in this Report.*

*The technical information contained in this Report relating to mineral resource estimates for Sabodala, Masato, Golouma, Kerekounda, and Somgol Other are based on information compiled by Ms. Nakai-Lajoie. Ms. Patti Nakai-Lajoie, P. Geo., is a Member of the Association of Professional Geoscientists of Ontario, which is currently included as a "Recognized Overseas Professional Organization" in a list promulgated by the ASX from time to time. Ms. Nakai-Lajoie is a full-time employee of Teranga and is not "independent" within the meaning of National Instrument 43-101. Ms. Nakai-Lajoie has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which she is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Ms. Nakai-Lajoie is a "Qualified Person" under National Instrument 43-101 Standards of Disclosure for Mineral Projects. Ms. Nakai-Lajoie has consented to the inclusion in this Report of the matters based on her compiled information in the form and context in which it appears in this Report.*

*Teranga's disclosure of mineral reserve and mineral resource information is governed by NI 43-101 under the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Mineral Reserves, adopted by the CIM Council, as may be amended from time to time by the CIM ("CIM Standards"). CIM definitions of the terms "mineral reserve", "proven mineral reserve", "probable mineral reserve", "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource", are substantially similar to the JORC Code corresponding definitions of the terms "ore reserve", "proved ore reserve", "probable ore reserve", "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource", respectively. Estimates of mineral resources and mineral reserves prepared in accordance with the JORC Code would not be materially different if prepared in accordance with the CIM definitions applicable under NI 43-101. There can be no assurance that those portions of mineral resources that are not mineral reserves will ultimately be converted into mineral reserves.*

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and, where relevant, the choice of accounting principles. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors has met with the Company's independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The Company's independent auditors, Ernst & Young LLP, have conducted an audit in accordance with generally accepted auditing standards, and their report follows.



Alan Hill  
Executive Chairman



Richard Young  
President and Chief Executive Officer



Navin Dyal  
Chief Financial Officer



# INDEPENDENT AUDITOR'S REPORT

## *To the Shareholders of Teranga Gold Corporation*

We have audited the accompanying consolidated financial statements of Teranga Gold Corporation, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

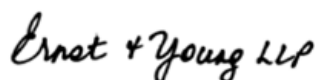
## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Teranga Gold Corporation as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## **Restated comparative information**

The consolidated financial statements of Teranga Gold Corporation for the year ended December 31, 2012 (prior to the restatement of the comparative information described in Note 4 – "Change in Accounting Policies" to the consolidated financial statements) were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 20, 2013.

As part of our audit of the consolidated financial statements of Teranga Gold Corporation for the year ended December 31, 2013, we also audited the adjustments described in Note 4 that were applied to restate the consolidated financial statements for the year ended December 31, 2012. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements of Teranga Gold Corporation for the year ended December 31, 2012 other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements for the year ended December 31, 2012 taken as a whole.



Chartered Accountants  
Licensed Public Accountants

February 20, 2014  
Toronto, Canada



## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

December 31, 2013

(in \$000s of United States dollars, except per share amounts)

		For the year ended December 31	
	Note	2013	2012 (Restated) Note 4
Revenue	8	297,927	350,520
Cost of sales	9	(196,505)	(165,238)
<b>Gross profit</b>		<b>101,422</b>	<b>185,282</b>
Exploration and evaluation expenditures		(5,405)	(16,657)
Administration expenses	10	(14,717)	(15,573)
Share-based compensation	36	(813)	(4,694)
Finance costs	11	(12,148)	(7,362)
Gains/(losses) on gold hedge contracts		5,308	(15,274)
Gains/(losses) on oil hedge contracts		31	(427)
Net foreign exchange losses		(1,233)	(2,574)
Loss on available for sale financial asset	27	(4,003)	(11,917)
Share of income from equity investment in OJVG	18	52	–
Other expenses	12	(11,895)	(2,749)
		<b>(44,823)</b>	<b>(77,227)</b>
<b>Profit before income tax</b>		<b>56,599</b>	<b>108,055</b>
Income tax benefit	13	–	115
<b>Net profit</b>		<b>56,599</b>	<b>108,170</b>
Profit attributable to:			
Shareholders		47,516	92,600
Non-controlling interests		9,083	15,570
<b>Profit for the year</b>		<b>56,599</b>	<b>108,170</b>
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit/loss for the period			
Exchange differences arising on translation of Teranga corporate entity	28	–	(63)
Change in fair value of available for sale financial asset, net of tax		–	–
Gains (losses), net of tax		–	–
Reclassification to income, net of tax	27	(5,456)	6,775
<b>Other comprehensive income/(loss) for the year</b>		<b>(5,456)</b>	<b>6,712</b>
<b>Total comprehensive income for the year</b>		<b>51,143</b>	<b>114,882</b>
Total comprehensive income attributable to:			
Shareholders		42,060	99,312
Non-controlling interests		9,083	15,570
<b>Total comprehensive income for the year</b>		<b>51,143</b>	<b>114,882</b>
Earnings per share from operations attributable to the shareholders of the Company during the year			
- basic earnings per share	29	0.18	0.38
- diluted earnings per share	29	0.18	0.38

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

December 31, 2013

(in \$000s of United States dollars, except per share amounts)

		As at December 31, 2013	As at December 31, 2012 (Restated) Note 4
	Note		
<b>Current assets</b>			
Cash and cash equivalents		14,961	39,722
Restricted cash	34(b)	20,000	–
Trade and other receivables	14	7,999	6,482
Inventories	15	67,432	74,969
Derivative assets	16	–	456
Other assets	17	5,756	6,836
Available for sale financial assets	27	6	15,010
<b>Total current assets</b>		<b>116,154</b>	<b>143,475</b>
<b>Non-current assets</b>			
Inventories	15	63,740	32,700
Equity investment	18	47,627	–
Property, plant and equipment	19	222,487	247,898
Mine development expenditures	20	173,444	138,609
Intangible assets	21	947	1,859
<b>Total non-current assets</b>		<b>508,245</b>	<b>421,066</b>
<b>Total assets</b>		<b>624,399</b>	<b>564,541</b>
<b>Current liabilities</b>			
Trade and other payables	22	56,891	44,823
Borrowings	23	70,423	10,415
Derivative liabilities	24	–	51,548
Provisions	25	1,751	1,940
<b>Total current liabilities</b>		<b>129,065</b>	<b>108,726</b>
<b>Non-current liabilities</b>			
Borrowings	23	3,946	58,193
Provisions	25	14,336	10,312
Other non-current liabilities	22	10,959	–
<b>Total non-current liabilities</b>		<b>29,241</b>	<b>68,505</b>
<b>Total liabilities</b>		<b>158,306</b>	<b>177,231</b>
<b>Equity</b>			
Issued capital	26	342,470	305,412
Foreign currency translation reserve	28	(998)	(998)
Other components of equity		15,776	16,358
Investment revaluation reserve		–	5,456
Retained earnings		96,741	49,225
<b>Equity attributable to shareholders</b>		<b>453,989</b>	<b>375,453</b>
Non-controlling interests		12,104	11,857
<b>Total equity</b>		<b>466,093</b>	<b>387,310</b>
<b>Total equity and liabilities</b>		<b>624,399</b>	<b>564,541</b>

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

**Approved by the Board of Directors**


**Alan Hill**  
Director



**Alan Thomas**  
Director

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

December 31, 2013

(in \$000s of United States dollars, except per share amounts)

		For the year ended December 31	
	Note	2013	2012 (Restated) Note 4
<b>Issued capital</b>			
Beginning of year		305,412	305,412
Shares issued from public offerings	7	37,264	–
Less: Share issue costs	7	(206)	–
End of year		342,470	305,412
<b>Foreign currency translation reserve</b>			
Beginning of year		(998)	(935)
Exchange difference arising on translation of Teranga corporate entity	28	–	(63)
End of year		(998)	(998)
<b>Other components of equity</b>			
Beginning of year		16,358	12,599
Equity-settled share-based compensation reserve		1,605	3,759
Stock options to Oromin Explorations Ltd. (“Oromin”) employees	7	585	–
Acquisition of non-controlling interest in Oromin	7	(2,772)	–
End of year		15,776	16,358
<b>Investment revaluation reserve</b>			
Beginning of year		5,456	(1,319)
Change in fair value of available for sale financial asset, net of tax	27	(5,456)	5,456
Impairment		–	1,319
End of year		–	5,456
<b>Retained earnings</b>			
Beginning of year	4	49,225	(43,375)
Profit attributable to shareholders		47,516	92,600
End of year		96,741	49,225
<b>Non-controlling interest</b>			
Beginning of year		11,857	(3,713)
Non-controlling interest – portion of profit for the period		9,083	15,570
Dividends paid and accrued		(8,836)	–
End of year		12,104	11,857
<b>Total shareholders' equity at December 31</b>		<b>466,093</b>	<b>387,310</b>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

December 31, 2013

(in \$000s of United States dollars, except per share amounts)

		<b>For the year ended December 31</b>	
		<b>2013</b>	<b>2012</b>
	<b>Note</b>		<b>(Restated) Note 4</b>
<b>Cash flows related to operating activities</b>			
Profit for the year		56,599	108,170
Depreciation of property, plant and equipment	19	48,185	41,999
Depreciation of capitalized mine development costs	20	30,091	14,127
Amortization of intangibles	21	1,021	650
Amortization of deferred financing costs		3,120	877
Unwinding of discount on mine restoration and rehabilitation provision	11	156	53
Share-based compensation	36	813	3,759
Net change in gains on gold forward sales contracts		(42,955)	(39,010)
Net change in losses on oil contracts		456	2,364
Buyback of gold forward sales contracts	24	(8,593)	(39,000)
Loss on available for sale financial asset	27	4,003	11,917
Loss/(gain) on disposal of property, plant and equipment		102	(131)
Increase in inventories		(23,503)	(27,363)
Changes in working capital other than inventory	34	4,812	26,570
<b>Net cash provided by operating activities</b>		<b>74,307</b>	<b>104,982</b>
<b>Cash flows related to investing activities</b>			
(Increase)/decrease in restricted cash		(20,000)	3,004
Redemption of short-term investments		—	593
Expenditures for property, plant and equipment	19	(17,344)	(51,451)
Expenditures for mine development	20	(51,603)	(62,910)
Acquisition of intangibles	21	(109)	(1,424)
Proceeds on disposal of property, plant and equipment		38	195
<b>Net cash used in investing activities</b>		<b>(89,018)</b>	<b>(111,993)</b>
<b>Cash flows related to financing activities</b>			
Loan facility, net of financing costs paid		(1,200)	57,695
Repayment of borrowings	23	(12,282)	(16,799)
Drawdown from finance lease facility, net of financing costs paid		12,755	2,857
Interest paid on borrowings	23	(7,054)	(4,075)
Dividend payment to Government of Senegal	31(b)	(2,700)	—
<b>Net cash provided by (used in) financing activities</b>		<b>(10,481)</b>	<b>39,678</b>
Effect of exchange rates on cash holdings in foreign currencies		431	(415)
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(24,761)</b>	<b>32,252</b>
<b>Cash and cash equivalents at the beginning of year</b>		<b>39,722</b>	<b>7,470</b>
<b>Cash and cash equivalents at the end of year</b>		<b>14,961</b>	<b>39,722</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

(in \$000s of United States dollars, except per share amounts)

### 1. GENERAL INFORMATION

Teranga Gold Corporation (“Teranga” or the “Company”) is a Canadian-based gold company listed on the Toronto Stock Exchange (TSX: TGZ) and the Australian Stock Exchange (ASX: TGZ). Teranga is principally engaged in the production and sale of gold, as well as related activities such as exploration and mine development. The Company was incorporated in Canada on October 1, 2010.

Teranga operates the Sabodala gold mine and is currently exploring nine exploration licenses covering 1,055km<sup>2</sup> in Senegal, comprising the Regional Land Package, surrounding the Sabodala gold mine.

On October 4, 2013, Teranga completed the acquisition of Oromin Explorations Ltd. (“Oromin”). Oromin held a 43.5 percent participating interest in the Oromin Joint Venture Group (“OJVG”) which holds 90 percent of Societe des Mines de Golouma S.A. (“Somigol”). Refer to Note 18.

On January 15, 2014, the Company acquired the balance of the OJVG that it did not already own. The Company acquired Bendon International Ltd.’s (“Bendon”) 43.5 percent participating interest and Badr Investment Ltd.’s (“Badr”) 13 percent carried interest.

The acquisition of Bendon’s and Badr’s interests in the OJVG increased Teranga’s ownership to 100 percent and consolidates the Sabodala region, increasing the size of Teranga’s land holding from 33km<sup>2</sup> to 246km<sup>2</sup> by combining the two permitted Mine Licenses and more than doubling the Company’s reserve base.

The OJVG holds a 15-year renewable mining lease in respect of the Golouma Gold Concession, which is located contiguous to the Sabodala Mine License.

The address of the Company’s principal office is 121 King Street West, Suite 2600, Toronto, Ontario, Canada M5H 3T9.

### 2. BASIS OF PREPARATION

#### a. Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries and were approved by the Board of Directors on February 20, 2014.

Certain comparatives have been restated to conform to the current-year presentation.

#### b. Basis of Presentation

All amounts in the consolidated financial statements and notes thereto are presented in United States dollars unless otherwise stated. The consolidated financial statements have been prepared on the basis of historical cost, except for equity-settled and cash-settled share-based payments that are fair valued at the date of grant and certain other financial assets and liabilities that are measured at fair value.

#### c. Functional and Presentation Currency

The functional currency of each of the Company’s entities is measured using the currency of the primary economic environment in which that entity operates. The functional currency of all entities within the group is the United States dollar, which is the Company’s presentation currency.

#### d. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses and other income during the period. These judgments, estimates and assumptions are based on management’s best knowledge of the relevant facts and circumstances, having regard to prior experience. While management believes that these judgments, estimates and assumptions are reasonable, actual results may differ from the amounts included in the consolidated financial statements.

Judgments made by management in the application of IFRS that have significant effects on the consolidated financial statements and estimates with a significant risk of material adjustments, where applicable, are contained in the relevant notes to the financial statements. Refer to Note 6 for critical judgments in applying the entity's accounting policies, and key sources of estimation uncertainty.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### a. Basis of Consolidation

The consolidated financial statements are prepared by consolidating the financial statements of Teranga Gold Corporation and its subsidiaries; Teranga Gold (B.V.I.) Corporation, SGML (Capital) Limited, Oromin, and Sabodala Gold (Mauritius) Limited and its subsidiaries as defined in IFRS 10 "Consolidated Financial Statements".

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured based on the fair values at the date of acquisition of assets and liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The goodwill arising, if any, is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the fair value of net identifiable assets acquired and the liabilities assumed. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized in net profit within the statement of comprehensive income.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all inter-company balances and transactions between entities in the Company, including any unrealized profits or losses, have been eliminated.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Company's equity therein. Non-controlling interests consist of the fair value of net assets acquired at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

Total comprehensive profit/(loss) is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### b. Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future which form part of the net investment in a foreign operation and which are recognized in a foreign currency translation reserve within equity and recognized in profit or loss on disposal of the net investment.

#### c. Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of 90 days or less at the date of acquisition.

When applicable, bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

#### d. Short-term Investments

Short-term investments represent investments in guaranteed investment certificates with maturity dates of more than 90 days at the date of acquisition. Short-term investments are carried at amortized cost.

#### e. Inventories

Gold bullion, gold in circuit and ore in stockpiles are physically measured or estimated and valued at the lower of cost and net realizable value. Cost represents the weighted average cost and includes direct costs and an appropriate portion of fixed and variable production overhead costs, including depreciation and amortization on property, plant and equipment used in the production process and depreciation and amortization on capitalized stripping costs, incurred in converting materials into finished goods. As ore is removed from processing, costs are relieved based on the average cost per ounce in the stockpile.

By-product metals inventory on hand obtained as a result of the production process to extract gold are valued at the lower of cost and net realizable value.



Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion, if any, and applicable variable selling expenses.

Materials and supplies are valued at the lower of cost and net realizable value. Any provision for obsolescence is determined by reference to specific inventory items identified. A regular and ongoing review is undertaken to establish the extent of surplus items and a provision is made for any potential loss upon disposal.

#### f. Property, Plant and Equipment

Property, plant and equipment is measured on the historical cost basis less depreciation and impairment losses.

The cost of property, plant and equipment constructed by the Company includes the cost of materials, direct labour and deferred financing costs where appropriate. Assets under construction and assets purchased that are not ready for use are capitalized under capital work in progress.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to net profit within the statement of comprehensive income during the financial period in which they are incurred.

#### *Depreciation*

The depreciable amount of property, plant and equipment is depreciated over their useful lives of the asset commencing from the time the asset is ready for use. The Company uses the units of production ("UOP") method when depreciating mining assets which results in a depreciation charge based on the recovered ounces of gold. Mining assets include buildings and property improvements and plant and equipment.

The Company uses the straight-line method when depreciating other equipment, office furniture, motor vehicles and finance lease equipment.

Depreciation is calculated using the following method:

Class of Property, Plant and Equipment	Method	Years
Buildings and property improvements	UOP	n/a
Plant and equipment	UOP/Straight line	5.0–8.0 years
Office furniture and equipment	Straight line	3.0–6.7 years
Motor vehicles	Straight line	5.0 years
Plant equipment under finance lease	Straight line	5.0–8.0 years

The assets' residual values, depreciation method and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Capital work in progress is not depreciated.

The gain or loss arising upon disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in net profit within the statement of comprehensive income.

#### *Assets Under Finance Lease*

Assets held under finance leases are depreciated over their expected useful lives on the same basis as similar owned assets.

#### g. Leased Assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are allocated between the liability and finance charges so as to achieve a constant rate of interest on the finance lease balance outstanding. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on deferred financing costs. Refer to Note 4(k).

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### h. Mine Development

Mine development expenditures are recognized at cost less accumulated amortization and any impairment losses. Mine development expenditures include capitalized waste stripping costs and evaluation expenditures that meet the criteria for capitalization. Upon reaching commercial production, these capitalized costs will be amortized using the UOP method over the estimated proven and probable reserves.

**i. Intangible Assets**

Intangible assets are recorded at cost less accumulated amortization and any impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method is reviewed at the end of each annual reporting period with any changes in these accounting estimates being accounted for on a prospective basis.

**j. Impairment of Long-lived Assets**

At each reporting date, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in net profit within the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in net profit within the statement of comprehensive income.

**k. Deferred Financing Costs**

Deferred financing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other deferred financing costs are recognized in net profit within the statement of comprehensive income in the period in which they are incurred.

**l. Employee Benefits**

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and long-term service leave when it is probable that settlement will be required and it is capable of being measured reliably.

Liabilities recognized in respect of employee benefits expected to be settled within twelve months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits which are not expected to be settled within twelve months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to the reporting date.

**m. Provisions**

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of past events for which it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying value is the present value of those cash flows.

**n. Restoration and Rehabilitation**

A provision for restoration and rehabilitation is recognized when there is a present obligation as a result of exploration, development and production activities undertaken, that it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning sites and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal or constructive obligation. Future restoration costs are reviewed each reporting period and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

## **o. Income Tax**

### *Current Income Tax*

Current income tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. Current income tax is calculated on the basis of the law enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries operate and generate taxable income.

### *Deferred Income Tax*

Deferred income tax is recognized, in accordance with the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor the taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

## **p. Financial Instruments**

Investments are recognized and de-recognized on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as fair value through profit and loss.

### *Fair Value Through Profit or Loss*

Upon disposal of an investment, the difference in the net disposal proceeds and the carrying amount is charged or credited to net profit within the statement of comprehensive income.

### *Loans and Receivables*

Trade and other receivables, loans, cash and cash equivalents, short-term investments and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortized cost using the effective interest method less impairment.

Interest income is recognized by applying the effective interest method.

### *Available-for-sale Financial Assets*

Certain shares held by the Company are classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognized directly in the investment revaluation reserve with the exception of:

- significant and prolonged impairment losses;
- interest calculated using the effective interest method; and
- foreign exchange gains and losses on monetary assets;

all of which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investment revaluation reserve is included in profit or loss for the period.

### *Effective Interest Method*

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period.

### *Impairment of Financial Assets*

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognized directly in Other comprehensive income.

#### *De-recognition of Financial Assets*

The Company de-recognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

#### *Derivative Financial Instruments*

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in net profit within the statement of comprehensive income immediately as the Company does not apply hedge accounting.

The fair value of derivatives is presented as a non-current asset or a non-current liability, if the remaining maturity of the instrument is more than twelve months and it is not expected to be realized or settled within twelve months and as a current asset or liability when the remaining maturity of the instrument is less than twelve months.

#### *Debt and Equity Instruments*

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### *Financial Guarantee Contract Liabilities*

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of:

- the amount of the obligation under the contract, as determined under IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and
- the amount initially recognized less, where appropriate, cumulative amortization in accordance with the revenue recognition policies described in Note 4(s).

#### *Financial Liabilities*

Financial liabilities are classified as either financial liabilities “at fair value through profit or loss” or other financial liabilities.

#### *Other Financial Liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

#### **q. Share-based Payment**

The Company operates an equity-settled, share-based compensation plan for remuneration of its management and employees.

The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The fair value of the options is adjusted by the estimate of the number of options that are expected to vest as a result of non-market conditions and is expensed over the vesting period using an accelerated method of amortization.

Share-based compensation relating to stock options is charged to net profit within the statement of comprehensive income.

#### **r. Fixed Bonus Plan Units**

The Company operates a cash-settled, share-based compensation plan for remuneration of its management, directors, employees and consultants.

The fair value of the Fixed Bonus Plan Units (“Units”) granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the Units are granted. The fair value of the Units is adjusted by the estimate of the number of Units that are expected to vest as a result of non-market conditions and is expensed over the vesting period using an accelerated method of amortization.

Share-based compensation relating to the Fixed Bonus Plan is charged to the net profit within the statement of comprehensive income and re-valued at the end of each reporting period based on the period-end share price. Refer to Note 36(b).

### s. Revenue Recognition

#### *Gold and Silver Bullion Sales*

Revenue is recognized when persuasive evidence exists that all of the following criteria are met:

- the shipment has been made;
- the significant risks and rewards of ownership of the product have been transferred to the buyer;
- neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the gold or silver sold, has been retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefit associated with the sale will flow to the Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

#### *Interest Income*

Interest income is recognized in other expenses within the statement of comprehensive income.

### t. Exploration and Evaluation Expenses

Exploration and evaluation expenditures in relation to each separate area of interest are expensed in net profit within the statement of comprehensive income until the determination of the technical feasibility and the commercial viability of the project.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and probable reserves are determined to exist, the rights of tenure are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area, or alternatively by sale of the property. Once the proven and probable reserves are determined to exist, including when a technical feasibility study is completed, subsequent exploration and development expenses are capitalized as mine evaluation expenditures.

Exploration and evaluation assets comprise of costs incurred to secure the mining concession, acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortization of assets used in exploration and evaluation

activities. General and administrative costs are only included in exploration and evaluation costs where they are related directly to the operational activities in a particular area of interest.

### u. Earnings per Share

Basic earnings per share are determined by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary common shares outstanding during the financial period.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares.

### v. Joint Arrangements

A joint arrangement is defined as one over which two or more parties have joint control, which is the contractually agreed sharing of control over an arrangement. This exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. There are two types of joint arrangements: joint operations and joint ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. In relation to the Company's interests in joint operations, the Company recognizes the Company's share of jointly controlled assets (classified according to their nature), the share of liabilities incurred (including those incurred jointly with other venturers) and the Company's share of expenses incurred by or in respect of each joint venture.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. The Company applies the equity method of accounting for its interest in the joint venture.

### w. Government Royalties

Royalties are accrued and charged against earnings when the liability from production of the gold arises. Royalties are separately reported as expenses and not deducted from revenue.

### x. Non-controlling Interest

Non-controlling interests represent the fair value of net assets in subsidiaries that are not held by the Company and are presented in the equity section of the consolidated statement of financial position. Profit for the period that is attributable to non-controlling interests is calculated based on the ownership of the minority shareholders in the subsidiary.

## 4. CHANGE IN ACCOUNTING POLICIES

### a. Stripping Costs in the Production Phase of a Surface Mine

The Company adopted International Financial Reporting Interpretation Committee 20 ("IFRIC 20") Stripping Costs in the Production Phase of a Surface Mine effective January 1, 2013. IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity from the stripping activity through either: useable ore that can be used to produce inventory or improved access to further quantities of material that will be mined in future periods.

The change in accounting policy has been applied retroactively with restatement as of January 1, 2012 and there was no impact on January 1, 2012 opening balances. The impact on December 31, 2012 balances was an increase to mine development expenditures of \$29.6 million, a decrease to inventory of \$15.5 million and a decrease to cost of sales of \$14.1 million.

The impact of the change in accounting policy on the statement of financial position as at December 31, 2012 and the statement of comprehensive income and cash flows for the year ended December 31, 2012 are set out below:

## IMPACT ON STATEMENT OF FINANCIAL POSITION

As at December 31, 2012			
	As previously reported	Impact of change in accounting policy	Restated
<b>Current assets</b>			
Inventories	82,474	(7,505)	74,969
<b>Total current assets</b>	<b>150,980</b>	<b>(7,505)</b>	<b>143,475</b>
<b>Non-current assets</b>			
Inventories	40,659	(7,959)	32,700
Mine development expenditures	109,060	29,549	138,609
<b>Total non-current assets</b>	<b>399,476</b>	<b>21,590</b>	<b>421,066</b>
<b>Total assets</b>	<b>550,456</b>	<b>14,085</b>	<b>564,541</b>
<b>Equity</b>			
Accumulated income	36,549	12,676	49,225
<b>Equity attributable to shareholders</b>	<b>362,777</b>	<b>12,676</b>	<b>375,453</b>
Non-controlling interests	10,448	1,409	11,857
<b>Total equity</b>	<b>373,225</b>	<b>14,085</b>	<b>387,310</b>
<b>Total equity and liabilities</b>	<b>550,456</b>	<b>14,085</b>	<b>564,541</b>



## IMPACT ON STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

	As previously reported	Impact of changes in accounting policies	Restated
Cost of sales	(179,323)	14,085	(165,238)
<b>Gross profit</b>	<b>171,197</b>	<b>14,085</b>	<b>185,282</b>
<b>Profit before income tax</b>	<b>93,970</b>	<b>14,085</b>	<b>108,055</b>
Income tax benefit	115		115
<b>Profit for the period</b>	<b>94,085</b>	<b>14,085</b>	<b>108,170</b>
Profit attributable to:			
Shareholders	79,924	12,676	92,600
Non-controlling interests	14,161	1,409	15,570
<b>Profit for the period</b>	<b>94,085</b>	<b>14,085</b>	<b>108,170</b>
<b>Total comprehensive income for the period</b>	<b>100,797</b>	<b>14,085</b>	<b>114,882</b>
Total comprehensive income attributable to:			
Shareholders	86,636	12,676	99,312
Non-controlling interests	14,161	1,409	15,570
<b>Total comprehensive income for the period</b>	<b>100,797</b>	<b>14,085</b>	<b>114,882</b>
- basic earnings per share	0.33	0.05	0.38
- diluted earnings per share	0.33	0.05	0.38

## IMPACT ON STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

	As previously reported	Impact of changes in accounting policies	Restated
<b>Cash flows related to operating activities</b>			
Profit for the period	94,085	14,085	108,170
Depreciation of capitalized mine development costs	11,142	2,985	14,127
Increase in inventories	(42,826)	15,463	(27,363)
Changes in working capital	26,570	–	26,570
<b>Net cash provided by (used in) operating activities</b>	<b>72,449</b>	<b>32,533</b>	<b>104,982</b>
<b>Cash flows related to investing activities</b>			
Expenditures for mine development	(30,377)	(32,533)	(62,910)
<b>Net cash used in investing activities</b>	<b>(79,460)</b>	<b>(32,533)</b>	<b>(111,993)</b>
<b>Net increase in cash and cash equivalents held</b>	<b>32,252</b>	<b>–</b>	<b>32,252</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>7,470</b>	<b>–</b>	<b>7,470</b>
<b>Cash and cash equivalents at the end of period</b>	<b>39,722</b>	<b>–</b>	<b>39,722</b>

### b. IFRS 10 – Consolidated financial statements

IFRS 10, “Consolidated financial statements” (IFRS 10) was issued by the IASB in May 2011 and replaced SIC 12, “Consolidation – Special purpose entities” and parts of IAS 27, “Consolidated and separate financial statements”. IFRS 10 was effective for annual periods beginning on or after January 1, 2013 and the Company has adopted this standard. The Company has evaluated the impact of IFRS 10 and has determined there was no impact on its consolidated financial statements.

### c. IFRS 11 – Joint arrangements

IFRS 11, “Joint arrangements” (IFRS 11) was issued by the IASB in May 2011 and superseded IAS 31, “Interest in joint ventures” and SIC 13, “Jointly controlled entities – Non-monetary contributions by venturers” by removing the option to account for joint ventures using proportionate consolidation and requiring equity accounting. IFRS 11 was effective for annual periods beginning on or after January 1, 2013.

As at January 1, 2013, the Company did not have any joint arrangements. Through the acquisition of Oromin, the Company obtained a 43.5 percent participating interest in the OJVG which was determined to be a joint venture of the Company in two transactions on August 6, 2013 and October 4, 2013. Refer to Note 18.

#### **d. IFRS 12 – Disclosure of Interests in Other Entities**

IFRS 12, “Disclosure of interests in other entities” (IFRS 12) was issued by the IASB in May 2011. IFRS 12 requires enhanced disclosure of information about involvement with consolidated and unconsolidated entities, including structured entities commonly referred to as special purpose vehicles, or variable interest entities. IFRS 12 was effective for annual periods beginning on or after January 1, 2013 and the Company has adopted this standard. The Company has evaluated the impact of IFRS 12 and has applied the new disclosure requirements for its consolidated annual financial statements for the year ended December 31, 2013.

#### **e. IFRS 13 – Fair value measurement**

IFRS 13, “Fair value measurement” (IFRS 13) was issued by the IASB in May 2011. This standard clarifies the definition of fair value, required disclosures for fair value measurement, and sets out a single framework for measuring fair value. IFRS 13 replaces the existing guidance on measuring and disclosing fair value which is dispersed among several standards. IFRS 13 was effective for annual periods beginning on or after January 1, 2013 and the Company has adopted this standard.

Application of IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual note relating to the assets and liabilities whose fair values were determined. Refer to Note 36(h).

### **5. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

#### **a. IFRS 9 – Financial Instruments**

IFRS 9, “Financial instruments” (IFRS 9) was issued by the IASB in November 2009 and will replace IAS 39, “Financial Instruments: Recognition and Measurement” (IAS 39). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow character-

istics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. In July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9. The IASB agreed that the mandatory effective date should no longer be annual periods beginning on or after January 1, 2015 but rather be left open pending the finalization of the impairment and classification and measurement requirements. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

#### **b. IFRIC 21 – Levies**

In May 2013, the IASB issued IFRIC Interpretation 21 Levies, which was developed by the IFRS Interpretations Committee (the Committee). The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached.

The interpretation is applicable for annual periods beginning on or after January 1, 2014. Early application is permitted. The Company is currently evaluating the impact of IFRIC 21 on its consolidated financial statements.

### **6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The following are critical judgments and estimations that management has made in the process of applying the Company’s accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

#### *Ore Reserves*

Management estimates its ore reserves based upon information compiled by qualified persons as defined in accordance with the Canadian Securities Administrators’ National Instrument 43-101 Standards for Disclosure for Mineral Projects requirements, which is similar to the Australasian standards. The estimated quantities of economically recoverable reserves are based upon interpretations of geological models and require assumptions to be made regarding factors such as estimates of short- and long-term exchange rates, esti-

mates of short- and long-term commodity prices, future capital requirements and future operating performance. Changes in reported reserve estimates can impact the carrying value of property, plant and equipment, mine development expenditures, provision for mine restoration and rehabilitation, the recognition of deferred tax assets, as well as the amount of depreciation and amortization charged to net profit within the statement of comprehensive income.

### *Functional Currency*

The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The functional currency of all entities within the group is the United States dollar, which was determined based on the currency that mainly influences sales prices for goods and services, labour, material and other costs and the currency in which funds from financing activities are generated.

### *Units of Production*

Management estimates recovered ounces of gold in determining the depreciation and amortization of mining assets, including buildings and property improvement and plant and equipment. This results in a depreciation/amortization charge proportional to the recovery of the anticipated ounces of gold. The life of the asset is assessed annually and considers its physical life limitations and present assessments of economically recoverable reserves of the mine property at which the asset is located. The calculations require the use of estimates and assumptions, including the amount of recoverable ounces of gold. The Company's UOP calculations are based on recovered ounces of gold.

### *Mine Restoration and Rehabilitation Provision*

Management assesses its mine restoration and rehabilitation provision each reporting period. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent, the timing and the cost of rehabilitation activities, technological changes, regulatory change, cost increases, and changes in discount rates. Those uncertainties may result in actual expenditures differing from the amounts currently provided. The provision at the reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the statement of financial position by adjusting the rehabilitation asset and liability.

### *Impairment of Assets*

Management assesses each cash-generating unit each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset. Cash flows are discounted by an appropriate discount rate to determine the net present value. Management has assessed its cash-generating units as being all sources of mill feed through a central mill, which is the lowest level for which cash flows are largely independent of other assets.

### *Production Start Date*

Management assesses the stage of each mine development project to determine when a mine moves into the production stage. The criteria used to assess the start date of a mine are determined based on the unique nature of each mine development project. The Company considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and moves into the production phase. Some of the criteria include, but are not limited to, the following:

- completion of a reasonable period of testing of the mine plant and equipment;
- ability to produce metal in saleable form; and
- ability to sustain ongoing production of metal.

When a mine development project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capitalizable costs related to mining asset additions or improvements or mineable reserve development. It is also at this point that depreciation/amortization commences.

### *Fair Value of Derivative Financial Instruments*

Management assesses the fair value of Teranga's derivatives in accordance with the accounting policy stated in Note 4(p) to the consolidated financial statements. Fair values have been determined based on well-established valuation models

and market conditions existing at the reporting date. These calculations require the use of estimates and assumptions. Changes in assumptions concerning interest rates, gold prices and volatilities could have a significant impact on the fair valuation attributed to the Company's derivatives. When these assumptions change or become known in the future, such differences will impact asset and liability carrying values in the period in which they change or become known.

### *Fair Value of Stock Options*

Management assesses the fair value of stock options granted in accordance with the accounting policy stated in Note 4(q) to the consolidated financial statements. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The calculation requires the use of estimates and assumptions. Due to lack of sufficient historical information for the Company, volatility was determined using the existing historical volatility information of the Company's share price combined with the industry average for comparable-size mining companies.

### *Fair Value of Fixed Bonus Plan Units*

Management assesses the fair value of Units granted in accordance with the accounting policy stated in Note 4(r) to the consolidated financial statements. The fair value of the Units granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the Units are granted. The calculation requires the use of estimates and assumptions. Due to lack of sufficient historical information for the Company, volatility was determined using the existing historical volatility information of the Company's share price combined with the industry average for comparable-size mining companies.

### *Stripping Costs in the Production Phase of a Surface Mine*

Management assesses the costs associated with the stripping activity in the production phase of surface mining: the useable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods, which are estimated by management.

## **7. ACQUISITION**

### **a. Acquisition of Oromin**

On August 6, 2013, the Company acquired 78,985,388 common shares of Oromin, representing approximately 57.5 percent of the Oromin shares that the Company did not already own. Together with the 18,699,500 Oromin shares owned by the Company and a further 2,091,013 shares obtained, this represented a total of 99,775,901 Oromin shares or approximately 72.6 percent of the outstanding Oromin shares.

Former shareholders of Oromin were entitled to receive 0.6 of a common share of Teranga for each Oromin share. Total consideration paid of \$24.1 million consisted of the issuance of 48,645,840 Teranga common shares at a price of \$0.48 per share for consideration of \$23.5 million and the fair value of Oromin stock options replaced by 7,911,600 Teranga stock options for consideration of \$0.6 million. Share issue costs totalled \$0.2 million.

On October 4, 2013, the Company completed the acquisition of all of the issued and outstanding common shares of Oromin that it did not already own (Oromin being one of the three joint venture partners holding 43.5 percent of the OJVG), issuing 22,537,251 additional Teranga common shares at a price of \$0.61 per share for consideration of \$13.8 million.

In total, the Company issued 71,183,091 Teranga shares to acquire all of the Oromin shares for net consideration of \$37.8 million, including the fair value of Oromin stock options replaced by 7,911,600 Teranga stock options. As a result, Teranga's total number of issued and outstanding shares increased to 316,801,091.

All stock options granted in connection with the acquisition of Oromin expire 18 months from the grant date of August 6, 2013. The fair value of the Oromin options at the grant date was calculated using the Black-Scholes option pricing model with the following assumptions:

	August 6, 2013
Grant date share price	C\$0.28
Exercise price	C\$0.65–C\$1.30
Risk-free interest rate	0.78%–1.53%
Volatility of expected market price of shares	72.62%–94.09%
Expected life of options	0.92–4.04
Dividend yield	0%
Forfeiture rate	0%

The Company determined that this transaction represented a business combination with Teranga identified as the acquirer. The Company consolidated 100 percent of Oromin's operating results, cash flows and net assets from August 6, 2013 with non-controlling interests of 27.4 percent until October 4, 2013.

In accordance with the acquisition method of accounting, the acquisition cost has been allocated to the underlying assets acquired and liabilities assumed, based upon their estimated fair values at the date of acquisition. A discounted cash flow model was used to determine the fair value of the equity interest in the investment in OJVG. Expected future cash flows are based on estimates of projected future revenues, expected future production costs and capital expenditures. The acquisition cost equaled the value of the net identifiable assets acquired, including consideration of non-controlling interest. Non-controlling interest has been measured based

on the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The following tables present the purchase price and the final allocation of the purchase price to the assets and liabilities acquired.

#### Purchase Cost – August 6, 2013

Fair value of shares issued to Oromin shareholders	23,487
Replacement stock options issued to Oromin employees	585
<b>Total Acquisition Cost</b>	<b>24,072</b>
Fair value of previously held interest	5,131
	29,203
Cash acquired with Oromin	(367)
<b>Consideration, net of cash acquired</b>	<b>28,836</b>

#### Summary of Final Purchase Price Allocation

Assets	
Current assets	545
Investment in OJVG	47,059
Total assets	47,604
Liabilities	
Current liabilities	4,009
Borrowings	3,387
Total liabilities	7,396
Net assets acquired, before non-controlling interest	40,208
Non-controlling interest	(11,005)
<b>Net assets acquired</b>	<b>29,203</b>

#### Purchase Cost – October 4, 2013

Fair value of shares issued to Oromin shareholders	13,777
Carrying value of additional interest in Oromin	11,005
<b>Difference recognized within shareholders' equity</b>	<b>2,772</b>

Acquisition-related costs of approximately \$8.0 million have been expensed during the year ended December 31, 2013 and are presented within Other expenses in the consolidated statements of comprehensive income.

Since the date of acquisition, Oromin has recorded a loss of \$0.8 million included in net profit within the consolidated statement of comprehensive income as of December 31,

2013. Had the acquisition been at the beginning of the reporting period (January 1, 2013), the amount of loss recorded in the consolidated statement of comprehensive income would be \$1.9 million.

#### b. Franco-Nevada Gold Stream and Acquisition of the OJVG

On January 15, 2014, the Company completed a \$135.0 million stream transaction with Franco-Nevada to fund the acquisition of Bendon's interest in the OJVG for \$105.0 million and retire half of the project finance facility with Macquarie of \$30.0 million. As a result of the two transactions, Teranga is required to deliver to Franco-Nevada 22,500 ounces annually over the first six years followed by 6 percent of production from the Company's existing properties, including those of the OJVG, thereafter. Franco-Nevada's purchase price per ounce is set at 20 percent of the spot price of gold.

The Company also acquired Badr's 13 percent carried interest for \$7.5 million and further contingent consideration based on higher gold prices and increases to OJVG reserves through 2020.

The acquisition of Bendon's and Badr's interests in the OJVG increased Teranga's ownership to 100 percent.

Acquisition-related costs of approximately \$2.6 million incurred in 2013 have been expensed during the year ended December 31, 2013 and are presented within Other expenses in the consolidated statements of comprehensive income.

The Company is in the process of determining the fair values of the acquired assets and liabilities of OJVG and therefore disclosure of the fair values of the net identifiable assets arising from the acquisition cannot be made. The valuation is expected to be completed in 2014.

Following the acquisition of Bendon's interest in the OJVG subsequent to year-end, the legal claim filed by Bendon was dismissed.

## 8. REVENUE

	For the year ended December 31	
	2013	2012
Gold sales at spot price	297,326	349,871
Silver sales	601	649
<b>Total revenue</b>	<b>297,927</b>	<b>350,520</b>

For the year ended December 31, 2013, 208,406 ounces of gold were sold at an average price of \$1,427 per ounce (2012: 207,814 ounces were sold at an average of \$1,634 per ounce). Revenue excludes the impact of gold hedges as losses on ounces delivered into gold hedge contracts which are classified within gains (losses) on gold hedge contracts (refer to Note 24).

Including the impact of gold hedge losses, for the year ended December 31, 2013, 208,406 ounces of gold were sold at an average realized price of \$1,246 per ounce, including 45,289 ounces that were delivered into gold hedge contracts at \$806 per ounce, representing 22 percent of gold sales for the year, and 163,117 ounces were sold into the spot market at an average price of \$1,368 per ounce.

During the second quarter of 2013, the Company bought back the remaining 14,500 ounces (2012 – 52,105 ounces) “out of the money” gold forward sales contracts at a cost of \$8.6 million (2012 – \$39 million).

Including the impact of gold hedge losses, for the year ended December 31, 2012, 207,814 ounces of gold were sold at an average realized price of \$1,422 per ounce, including 62,606 ounces that were delivered into gold hedge contracts at \$832 per ounce, representing 30 percent of gold sales for the year and 145,208 ounces were sold into the spot market at an average price of \$1,677 per ounce.

Gold sales revenue to one customer for the year ended December 31, 2013 was \$297 million (2012: \$350 million).

## 9. COST OF SALES

	For the year ended December 31	
	2013	2012
Mine production costs	170,752	145,832
Capitalized deferred stripping	(43,264)	(32,535)
Depreciation and amortization	77,902	55,645
Royalties	14,755	10,491
Rehabilitation	6	36
Inventory movements – cash	(8,552)	(5,409)
Inventory movements – non-cash	(15,094)	(8,822)
<b>Total cost of sales</b>	<b>196,505</b>	<b>165,238</b>

## 10. ADMINISTRATION EXPENSES

	For the year ended December 31	
	2013	2012
Corporate office	7,712	8,686
Dakar office	1,189	754
Social community costs	1,763	1,558
Audit fees	451	581
Legal & other	2,466	3,281
Depreciation	1,136	713
<b>Total administration expenses</b>	<b>14,717</b>	<b>15,573</b>

## 11. FINANCE COSTS

	For the year ended December 31	
	2013	2012
Interest on borrowings	7,331	4,516
Amortization of borrowing costs	3,120	877
Unwinding of discount	156	53
Political risk insurance	570	898
Stocking fee	626	578
Bank charges	345	440
<b>Total finance costs</b>	<b>12,148</b>	<b>7,362</b>



## 12. OTHER EXPENSE

	For the year ended December 31	
	2013	2012
Acquisition costs <sup>(i)</sup>	11,020	2,785
Non-recurring legal and other costs	927	–
Interest income	(52)	(36)
<b>Total other income and expense</b>	<b>11,895</b>	<b>2,749</b>

<sup>(i)</sup> Includes costs for legal, advisory and consulting.

## 13. INCOME TAX

	For the year ended December 31	
	2013	2012
Current income tax expense	–	(115)
Deferred income tax benefit on reversal of temporary differences	–	–
<b>Total income tax benefit</b>	<b>–</b>	<b>(115)</b>

The Company's provision for income taxes differs from the amount computed by applying the combined Canadian fed-

eral and provincial income tax rates to income (loss) before income taxes as a result of the following:

	For the year ended December 31	
	2013	2012
Statutory tax rates	26.5%	26.5%
Income tax benefit computed at statutory rates	14,999	24,902
Non-deductible items	4,260	1,244
Income not subject to tax	(24,069)	(37,528)
Difference between deferred and current rate	–	–
Unrecognized deferred tax assets	4,810	11,267
Other	–	–
<b>Income tax benefit</b>	<b>–</b>	<b>(115)</b>

Deferred income tax assets are recognized for tax loss carry-forwards, property, plant and equipment, share issuance costs and transaction costs to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of \$12,456 in respect of non-capital losses, property, plant and equipment, share issuance costs and transaction costs amounting to \$48,793 that can be carried forward against future taxable income. The non-capital

losses, property, plant and equipment, share issuance costs and transaction costs amounting to \$48,793 will expire in the years 2015 to 2033.

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled \$240,726 at December 31, 2013.

## 14. TRADE AND OTHER RECEIVABLES

	As at December 31, 2013	As at December 31, 2012
<b>Current</b>		
Trade receivable <sup>(i)</sup>	7,376	5,268
Other receivables <sup>(ii)</sup>	623	1,214
<b>Total trade and other receivables</b>	<b>7,999</b>	<b>6,482</b>

<sup>(i)</sup> Trade receivable relates to gold and silver shipments made prior to period-end that were settled after year-end.

<sup>(ii)</sup> Other receivables primarily include receivables from suppliers for services, materials and utilities used at the Sabodala gold mine that the Company provides to them and \$0.2 million sales tax refunds as at December 31, 2013 (2012: \$0.1 million).

## 15. INVENTORIES

	As at December 31, 2013	As at December 31, 2012 (Restated)
<b>Current</b>		
Gold bullion	7,192	4,094
Gold in circuit	5,010	8,172
Ore stockpile	17,443	24,773
<b>Total gold inventories</b>	<b>29,645</b>	<b>37,039</b>
Diesel fuel	3,136	3,242
Materials and supplies	31,737	30,703
Goods in transit	2,914	3,985
<b>Total other inventories</b>	<b>37,787</b>	<b>37,930</b>
<b>Total current inventories</b>	<b>67,432</b>	<b>74,969</b>
<b>Non-Current</b>		
Ore stockpile	63,740	32,700
<b>Total inventories</b>	<b>131,172</b>	<b>107,669</b>

## 16. DERIVATIVE ASSETS

The Company had a hedge agreement with respect to the oil price in order to manage its exposure to commodity risk. The Company hedged 80,000 barrels per annum for four years commencing April 1, 2009 at a flat forward price of \$70 per barrel (West Texas Intermediate price).

The hedge contracts were completed in the first quarter of 2013. The gain on settlement of oil hedge contracts totalled \$0.5 million for the year ended December 31, 2013 (2012: \$1.9 million). At December 31, 2012, 20,000 barrels were hedged with a market value of \$0.5 million at market price of \$92 per barrel.

## 17. OTHER ASSETS

	As at December 31, 2013	As at December 31, 2012
<b>Current</b>		
Prepayments <sup>(i)</sup>	4,256	5,336
Security deposit <sup>(ii)</sup>	1,500	1,500
<b>Total other assets</b>	<b>5,756</b>	<b>6,836</b>

<sup>(i)</sup> As at December 31, 2013, prepayments include \$2.9 million of advances to vendors and contractors and \$1.4 million for insurance. As at December 2012, prepayments include \$4.3 million of advances to other vendors and contractors and \$1.0 million for insurance.

<sup>(ii)</sup> The security deposit represents a security for payment under the mining fleet and maintenance contract.

## 18. INVESTMENT IN OROMIN JOINT VENTURE GROUP LTD.

As part of the acquisition of the issued and outstanding common shares of Oromin, the Company obtained a 43.5 percent participating interest in the OJVG. An additional 43.5 participating interest in the OJVG was held by Bendon and the remaining 13.0 percent non-participating interest in the OJVG was held by Badr. The Company acquired these additional interests subsequent to year-end. Refer to Note 7.

The OJVG has a 90 percent interest in Societe des Mines de Golouma S.A. ("Somigol"), an operating company under the laws of Senegal, and the remaining 10 percent interest is held by the Government of Senegal. Somigol has a 15-year renewable mining license, extendable if future conditions are met.

Oromin had provided exploration and management services to OJVG for which Oromin may recover a portion of its administration costs.

During the year ended and as of December 31, 2013, the Company has determined that its investment in OJVG qualifies as an interest in a joint arrangement as a contractual arrangement exists between the owners of OJVG resulting in joint control. The Company has further determined that the legal form, terms, and other facts and circumstances related to the arrangement do not give the parties to the arrangement the rights to the assets and obligations to the liabilities relating to the arrangement. The joint arrangement accordingly qualifies as a joint venture and the Company has applied the equity method of accounting for its interest.

### Equity Investment Table

<b>Balance at August 6, 2013</b>	<b>47,059</b>
Cash contribution	775
Equity pickup	52
Project administration fees recovery	(259)
<b>Balance at December 31, 2013</b>	<b>47,627</b>

Summary financial information for the equity accounted investment in OJVG. The balances have not been adjusted for the percentage ownership held by the Company.

	As at December 31, 2013	As at August 6, 2013
<b>Current assets</b>		
Cash and term deposits	82	327
Prepays	5	7
Due from related party	–	304
<b>Total current assets</b>	<b>87</b>	<b>638</b>
<b>Non-current assets</b>		
Resource properties	96,689	95,057
<b>Total assets</b>	<b>96,776</b>	<b>95,695</b>
<b>Current liabilities</b>		
Trade and other payables	593	1,577
Due to Oromin	411	–
<b>Total current liabilities</b>	<b>1,004</b>	<b>1,577</b>
<b>Non-current liabilities</b>		
Shareholder advances	158,193	156,643
Accrued Interest	57,765	52,399
<b>Total Non-current liabilities</b>	<b>215,958</b>	<b>209,042</b>
<b>Total liabilities</b>	<b>216,962</b>	<b>210,619</b>
<b>Period from August 6, 2013 to December 31, 2013</b>		
Interest expense		5,366
Net foreign exchange gains		(80)
Other Income		(24)
<b>Net loss</b>		<b>(5,262)</b>
Less: interest related to shareholder advances		5,366
<b>The Company's share of income from equity investment in OJVG</b>		<b>52</b>

The reconciliation of OJVG's equity to the Company's net interest in the joint venture as at August 6, 2013 and December 31, 2013 are as follows:

	As at December 31, 2013	As at August 6, 2013
OJVG's equity	(120,186)	(114,924)
Add: shareholder advances	158,193	156,643
Add: accrued interest on shareholder advances	57,765	52,399
Less: accumulated project administration cost recovery	(518)	–
	95,254	94,118
<b>The Company's net investment in OJVG</b>	<b>47,627</b>	<b>47,059</b>

## 19. PROPERTY, PLANT AND EQUIPMENT

	Buildings & property improvement	Plant and equipment	Office furniture and equipment	Motor vehicles	Equipment under finance lease	Capital work in progress	Total (Restated)
<b>Cost</b>							
<b>Balance at January 1, 2012</b>	<b>32,216</b>	<b>190,397</b>	<b>1,279</b>	<b>2,481</b>	<b>42,095</b>	<b>56,558</b>	<b>325,026</b>
Additions	–	–	–	–	–	51,342	51,342
Capitalized mine rehabilitation	–	109	–	–	–	–	109
Disposals	–	(748)	–	(227)	–	–	(975)
Transfer	12,237	85,922	525	832	322	(99,838)	–
<b>Balance at December 31, 2012</b>	<b>44,453</b>	<b>275,680</b>	<b>1,804</b>	<b>3,086</b>	<b>42,417</b>	<b>8,062</b>	<b>375,502</b>
Additions	–	–	–	–	–	18,175	18,175
Capitalized mine rehabilitation	–	4,694	–	–	–	–	4,694
Disposals	–	(15)	(4)	(246)	(501)	–	(766)
Transfer	581	17,671	398	189	–	(18,795)	44
<b>Balance at December 31, 2013</b>	<b>45,034</b>	<b>298,030</b>	<b>2,198</b>	<b>3,029</b>	<b>41,916</b>	<b>7,442</b>	<b>397,649</b>
<b>Accumulated depreciation</b>							
<b>Balance at January 1, 2012</b>	<b>9,769</b>	<b>56,889</b>	<b>671</b>	<b>1,379</b>	<b>17,808</b>	<b>–</b>	<b>86,516</b>
Disposals	–	(719)	–	(192)	–	–	(911)
Depreciation expense	4,635	27,843	340	648	8,533	–	41,999
<b>Balance at December 31, 2012</b>	<b>14,404</b>	<b>84,013</b>	<b>1,011</b>	<b>1,835</b>	<b>26,341</b>	<b>–</b>	<b>127,604</b>
Disposals	–	(3)	(2)	(220)	(402)	–	(627)
Depreciation expense	4,812	34,435	435	386	8,117	–	48,185
<b>Balance at December 31, 2013</b>	<b>19,216</b>	<b>118,445</b>	<b>1,444</b>	<b>2,001</b>	<b>34,056</b>	<b>–</b>	<b>175,162</b>
<b>Net book value</b>							
<b>Balance at December 31, 2012</b>	<b>30,049</b>	<b>191,667</b>	<b>793</b>	<b>1,251</b>	<b>16,076</b>	<b>8,062</b>	<b>247,898</b>
<b>Balance at December 31, 2013</b>	<b>25,818</b>	<b>179,585</b>	<b>754</b>	<b>1,028</b>	<b>7,860</b>	<b>7,442</b>	<b>222,487</b>

Additions made to property, plant and equipment during the year ended December 31, 2013 relate mainly to additional mining equipment acquired.

Depreciation of property, plant and equipment of \$48.2 million was expensed as cost of sales for the year ended December 31, 2013 (2012: \$42.0 million).

## 20. MINE DEVELOPMENT EXPENDITURE

	Amount (Restated)
<b>Cost</b>	
Balance at January 1, 2012	124,418
Expenditures incurred during the year	62,911
<b>Balance at December 31, 2012</b>	<b>187,329</b>
Additions incurred during the year	64,926
<b>Balance at December 31, 2013</b>	<b>252,255</b>
<b>Accumulated depreciation</b>	
Balance at January 1, 2012	34,593
Depreciation expense	14,127
<b>Balance at December 31, 2012</b>	<b>48,720</b>
Depreciation expense	30,091
<b>Balance at December 31, 2013</b>	<b>78,811</b>
<b>Carrying amount</b>	
<b>Balance at December 31, 2012</b>	<b>138,609</b>
<b>Balance at December 31, 2013</b>	<b>173,444</b>

	As at December 31, 2013	As at December 31, 2012
Development and exploration costs	176,456	154,795
Deferred stripping asset	75,799	32,534
<b>Total mine development expenditures incurred</b>	<b>252,255</b>	<b>187,329</b>

Mine development expenditures represent development costs in relation to the Sabodala gold mine and Gora satellite deposit.

For the year ended December 31, 2013, capitalized mine development expenditures include \$43.3 million of deferred stripping costs, \$16.6 million relating to payments made and to be made to the Republic of Senegal (refer to Notes 22 and 31), capitalized reserve development of \$3.5 million, \$0.5 million related to the Gora project that was advanced from

the exploration stage to the development stage effective January 1, 2012 after technical feasibility and commercial viability studies had been completed, and other items of \$1.0 million.

Depreciation of capitalized mine development of \$30.1 million was expensed as cost of sales for the year ended December 31, 2013 (2012: \$14.1 million) based on \$181.5 million of assets subject to depreciation and amortization (2012: \$121 million).

## 21. INTANGIBLE ASSETS

	Computer Software <sup>(i)</sup>
<b>Cost</b>	
Balance at January 1, 2012	1,915
Additions	1,424
<b>Balance at December 31, 2012</b>	<b>3,339</b>
Additions	109
<b>Balance at December 31, 2013</b>	<b>3,448</b>
<b>Accumulated amortization</b>	
Balance at January 1, 2012	830
Amortization expense	650
<b>Balance at December 31, 2012</b>	<b>1,480</b>
Amortization expense	1,021
<b>Balance at December 31, 2013</b>	<b>2,501</b>
<b>Carrying amount</b>	
<b>At December 31, 2012</b>	<b>1,859</b>
<b>At December 31, 2013</b>	<b>947</b>

<sup>(i)</sup> Computer software costs relate to non-operating activities including software license fees using the straight-line depreciation method.

## 22. TRADE AND OTHER PAYABLES

	As at December 31, 2013	As at December 31, 2012
<b>Current</b>		
Unsecured liabilities:		
Trade payables <sup>(i)</sup>	21,410	16,446
Sundry creditors and accrued expenses	11,865	12,370
Government royalties <sup>(ii)</sup>	16,296	10,927
Amounts payable to Republic of Senegal <sup>(iii), (iv), (v)</sup>	7,320	5,080
<b>Total current trade and other payables</b>	<b>56,891</b>	<b>44,823</b>
<b>Non-Current</b>		
Amounts payable to Republic of Senegal <sup>(iii), (vi)</sup>	10,959	–
<b>Total other non-current liabilities</b>	<b>10,959</b>	<b>–</b>
<b>Total payables</b>	<b>67,850</b>	<b>44,823</b>

<sup>(i)</sup> Trade payables comprise of obligations by the Company to suppliers of goods and services. Terms are generally 30 days.

<sup>(ii)</sup> Government royalties are payable annually based on the mine head value of the gold and related substances produced at a rate of 5 percent of sales in 2013, compared to a rate of 3 percent of sales in 2012. During the second quarter of 2013, \$10.0 million of 2012 royalties were paid to the Republic of Senegal.

<sup>(iii)</sup> An amount of \$3.7 million is payable to the Republic of Senegal in four equal annual instalments based on \$6.50 for each ounce of new reserve until December 31, 2012. One payment was made during the second quarter of 2013 and of the remaining three payments, one has been presented as a current liability and the remaining two payments have been presented as other non-current liabilities and recorded at a discounted value. Refer to Notes 20 and 31 for further details.

<sup>(iv)</sup> An accrual of \$1.2 million remains at December 31, 2013 related to the tax settlement of the Sabodala Gold Operations SA ("SGO") 2012 tax assessment. During the second quarter of 2013, \$2.6 million was paid in full settlement of the Sabodala Mining Company 2013 tax assessment and in partial settlement of the SGO 2012 tax assessment. The remaining balance has been classified as a current liability. Refer to Notes 20 and 31 for further details.

<sup>(v)</sup> The Company has also agreed to advance accrued dividends, calculated based on a gold price of \$1,600 per ounce. For the period ended December 31, 2013, approximately \$5.2 million has been accrued based on net sales revenue. Refer to Note 31 for further details.

<sup>(vi)</sup> The Company has agreed to make a payment of \$15.0 million to the Republic of Senegal at the end of the operational life to establish a social development fund. The payment, after applying a discount rate, has been accrued for the quarter ended December 31, 2013. Refer to Notes 20 and 31 for further details.

## 23. BORROWINGS

	As at December 31, 2013	As at December 31, 2012
<b>Current</b>		
Loan facility	60,000	–
Finance lease liabilities	12,775	10,506
Transaction costs	(2,352)	(91)
<b>Total current borrowings</b>	<b>70,423</b>	<b>10,415</b>
<b>Non-Current</b>		
Loan facility	–	60,000
Finance lease liabilities	4,192	–
Transaction costs	(246)	(1,807)
<b>Total non-current borrowings</b>	<b>3,946</b>	<b>58,193</b>
<b>Total borrowings</b>	<b>74,369</b>	<b>68,608</b>

### Macquarie Loan Facility

During the third quarter of 2013, the Company amended its existing \$60.0 million loan facility agreement with Macquarie ("Loan Facility"). The amended agreement had extended the final repayment date of its existing loan facility agreement by one year to June 30, 2015. The Company was required to maintain a restricted cash balance of up to \$20.0 million and \$40.0 million of the loan facility was to have been repaid in five equal quarterly instalments beginning on June 30, 2014. The final \$20.0 million was scheduled to be repaid with the final instalment on June 30, 2015. As at December 31, 2013, the Company was not permitted to withdraw any portion of the \$20.0 million restricted cash balance as the Project Life

Ratio was less than the required 2.2:1. In addition, the Company was not in compliance with all of its financial covenants; as a result, the entire \$60.0 million project facility was classified within current borrowings.

Subsequent to year-end on January 15, 2014, the Company amended the Loan Facility and retired half of the balance for \$30.0 million. The remaining balance of \$30.0 million is scheduled to be repaid in three quarterly instalments of \$5.0 million beginning on March 31, 2014. The final \$15.0 million will be repaid on December 31, 2014. The amended Loan Facility agreement reduces the restricted cash requirement by \$5.0 million to \$15.0 million and removes the Project Life Ratio financial covenant.



### Macquarie Finance Lease Facility

During the first quarter of 2013, the Company entered into a new \$50.0 million finance lease facility with Macquarie ("Equipment Facility"). The lease facility replaces the finance lease facility previously in place with Société Générale, which was assigned and novated to Macquarie. The proceeds have

been put towards additional equipment for the Sabodala pit. During the fourth quarter of 2013, the Company cancelled the undrawn commitment from the Equipment Facility.

The following table shows the minimum lease repayment schedule.

	As at December 31, 2013		As at December 31, 2012	
	Minimum future lease payments	Present value of minimum future lease payments	Minimum future lease payments	Present value of minimum future lease payments
No later than one year	12,775	12,290	10,506	10,415
Later than one year and not later than five years	4,192	3,946	–	–
<b>Total finance lease liabilities</b>	<b>16,967</b>	<b>16,236</b>	<b>10,506</b>	<b>10,415</b>
Included in the financial statements as:				
Current	12,775	12,290	10,506	10,415
Non-current	4,192	3,946	–	–

The finance loan relates to the Equipment Facility, with a remaining lease term of fifteen months expiring March 2015. Minimum future lease payments consist of five payments over the term of the loan. Interest is calculated at LIBOR plus a margin paid quarterly in arrears. Due to the variable nature of the interest repayments the table above excludes all future interest amounts.

### Sprott Loan Facility

Prior to its acquisition by Teranga, Oromin entered into a \$5 million credit agreement with Sprott Resource Lending Partnership ("Facility"). Under the Facility agreement, the amount outstanding at August 6, 2013 of \$3.7 million became payable upon the acquisition and was repaid during the third quarter of 2013.

## 24. DERIVATIVE LIABILITIES

During the second quarter of 2013, the Company bought back the remaining 14,500 ounces related to "out of the money" gold forward sales contracts at a cost of \$8.6 million. At December 31, 2013, there is no remaining derivative liability.

At December 31, 2012, the hedge position comprised 59,789 ounces of forward sales at an average price of \$803 per ounce. The mark-to-market gold hedge position at the period-end spot price of \$1,664 per ounce was in a liability position of \$51.5 million.

## 25. PROVISIONS

	As at December 31, 2013	As at December 31, 2012
<b>Current</b>		
Employee benefits <sup>(i)</sup>	1,751	1,940
<b>Total current provisions</b>	<b>1,751</b>	<b>1,940</b>
<b>Non-Current</b>		
Mine restoration and rehabilitation <sup>(ii)</sup>	14,227	9,377
Cash-settled share-based compensation <sup>(iii)</sup>	109	935
<b>Total non-current provisions</b>	<b>14,336</b>	<b>10,312</b>
<b>Total provisions</b>	<b>16,087</b>	<b>12,252</b>

<sup>(i)</sup> The provisions for employee benefits include \$1.2 million accrued vacation and \$0.6 million long service leave entitlements for the period ended December 31, 2013. The provision for December 31, 2012 included \$1.4 million accrued vacation and \$0.5 million long service leave entitlements.

<sup>(ii)</sup> Mine restoration and rehabilitation provision represents a constructive obligation to rehabilitate the Sabodala gold mine based on the mining concession. The majority of the reclamation activities will occur at the completion of active mining and processing (which as of December 31, 2013 was estimated based on a mine closure in 2019) but a limited amount of concurrent rehabilitation will occur throughout the mine life.

	Amount
Balance at January 1, 2012	9,215
Capitalized mine rehabilitation	109
Unwinding of discount	53
<b>Balance at December 31, 2012</b>	<b>9,377</b>
Capitalized mine rehabilitation	4,694
Unwinding of discount	156
<b>Balance at December 31, 2013</b>	<b>14,227</b>

Note: The mine restoration and rehabilitation provision has increased by \$4.7 million in 2013 primarily due to change in discount rates and increase in cost estimates. The key assumptions applied for the determination of the mine restoration and rehabilitation provision include a discount rate of 1.1 percent and an inflation rate of 2.0 percent.

<sup>(iii)</sup> The provision for cash-settled share-based compensation represents the amortization of the fair value of the fixed bonus plan units. Details of the fixed bonus plan are disclosed in Note 36(b).

## 26. ISSUED CAPITAL

	Number of shares	Amount
<b>Common shares issued and outstanding</b>		
Balance at January 1, 2012 and December 31, 2012	245,618,000	305,412
Issued to Oromin shareholders	71,183,091	37,264
Less: Share issue costs	—	(206)
<b>Balance at December 31, 2013</b>	<b>316,801,091</b>	<b>342,470</b>

On October 4, 2013, the Company completed the acquisition of all of the issued and outstanding common shares of Oromin that it did not already own.

In total, the Company issued 71,183,091 Teranga shares to acquire all of the Oromin shares for consideration of \$37.3 million. The fair value of Oromin stock options replaced by 7,911,600 Teranga stock options totals an additional \$0.6 million of consideration. As a result, Teranga's total number of issued and outstanding shares increased to 316,801,091.

The Company is authorized to issue an unlimited number of Common Shares with no par value. Holders of Common Shares are entitled to one vote for each Common Share on all matters to be voted on by shareholders at meetings of the Company's shareholders. All dividends which the Board of Directors may declare shall be declared and paid in equal amounts per share on all Common Shares at the time outstanding. There are no pre-emptive, redemption or conversion rights attached to the Common Shares. All Common Shares, when issued, are and will be issued as fully paid and non-assessable shares without liability for further calls or to assessment.

## 27. AVAILABLE FOR SALE FINANCIAL ASSETS

As part of the acquisition of the Sabodala gold mine and Regional Land Package by way of Demerger from MDL, Teranga acquired 18,699,500 common shares of Oromin, classified as available for sale in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”. In the third quarter of 2013, the Company consolidated the Oromin shares upon acquisition of all the issued and outstanding shares of Oromin.

For the year ended December 31, 2013, as a result of change in fair value of available for sale financial assets, a loss of \$5.4 million (2012: \$6.8 million gain), net of tax of \$nil (2012: \$nil) was recognized in Other Comprehensive Income/(Loss). A further decline in Oromin’s share price of \$4.0 million was recognized as non-cash impairment losses (2012: \$11.9 million).

The following table outlines the change in fair value of the investment in Oromin:

	Amount
Balance at January 1, 2012	19,800
Change in fair value of available for sale financial asset during period	(5,142)
Foreign exchange gain	352
Balance at December 31, 2012	15,010
Change in fair value of available for sale financial asset during period	(9,448)
Foreign exchange loss	(431)
Consolidation of Oromin upon acquisition of control	(5,131)
Balance at December 31, 2013	–

As part of the acquisition of Oromin, the Company acquired Oromin’s investment of 1,197,906 shares of Lund Enterprise Corp. (“Lund”) of \$0.02 million with a market value at August 6, 2013 of \$0.015 per share. For the period ended December 31, 2013, the Company recognized a non-cash impairment loss of \$0.01 million based on further declines in Lund’s share price.

## 28. FOREIGN CURRENCY TRANSLATION

The foreign currency translation reserve represents historical exchange differences of \$0.9 million which arose upon translation from the functional currency of the Company’s corporate entity into United States dollars during 2011, which were recorded directly to the foreign currency translation reserve within the consolidated statement of changes in equity. The remaining amount of \$0.1 million represents foreign exchange difference resulting from the change of functional currency from Canadian to United States dollars as at January 1, 2012.

## 29. EARNINGS PER SHARE (EPS)

	For the year ended December 31	
	2013	2012
Basic EPS (US\$)	0.18	0.38
Diluted EPS (US\$)	0.18	0.38
Basic EPS:		
Net profit used in the calculation of basic EPS	47,516	92,600
Weighted average number of common shares for the purpose of basic EPS ('000)	270,705	245,618
Weighted average number of common shares for the purpose of diluted EPS ('000)	270,705	245,618

The determination of weighted average number of common shares for the purpose of diluted earnings per share (“EPS”) excludes 23.7 million and 17.1 million shares relating to share

options that were anti-dilutive for the periods ended December 31, 2013 and December 31, 2012, respectively.

### 30. COMMITMENTS FOR EXPENDITURE

#### a. Capital Expenditure Commitments

The Company has committed to spend a total of \$100,000 over the next year in respect of the mining equipment supply contract.

#### b. Sabodala Operating Commitments

The Company has the following operating commitments in respect of the Sabodala gold operation:

- Pursuant to the Company's Mining Concession, a royalty of 5 percent (2012 – 3 percent) is payable to the Government of Senegal based on the value of gold shipments, evaluated at the spot price on the shipment date.
- \$425,000 per annum on social development of local authorities in the surrounding Tambacounda region during the term of the Mining Concession.
- \$30,000 per year for logistical support of the territorial administration of the region from date of notification of the Mining Concession.
- \$200,000 per year on training of Directorate of Mines and Geology officers and Mines Ministry.

#### c. OJVG Operating Commitments

The Company faces the following operating commitments in respect of the OJVG project:

- \$450,000 per year is payable for social development of local authorities in the surrounding Kedougou Region during the term of the Mining Concession.
- \$150,000 per year is payable for logistical support of the territorial administration of the region from date of notification of the Mining Concession.

#### d. Oromin Operating Commitments

Pursuant to Oromin's lease agreement which was extended in July 2012, the Company holds a lease on its office premises in Vancouver, Canada, which terminates May 31, 2018. The Company is committed to lease payments with annual amounts payable of approximately \$235,000.

Subsequent to the year-end, the Company signed an offer to assign agreement to sub-lease the office premises in Vancouver to a third party. The Company is committed to a total payment of \$188,000 representing the period through to the end of the lease term. This payment is expected to be made in the second quarter of 2014.

### 31. CONTINGENT LIABILITIES

During the second quarter of 2013, the Company signed a definitive global agreement with the Republic of Senegal. A component of the agreement relates to the settlement of outstanding tax assessments and special contribution payment.

#### a. Settled and Outstanding Tax Assessments

During the second quarter of 2013, the Company made a payment of \$1.4 million in full settlement of the Sabodala Mining Company SARL ("SMC") tax assessment received in January 2013. The Company also made a payment of \$1.2 million in partial settlement of the Sabodala Gold Operations SA ("SGO") tax assessment received in December 2012. The final payment for the tax settlement of \$1.2 million has been accrued and is expected to be paid in early 2014.

Approximately \$18 million of the SGO 2011 tax assessment of approximately \$24 million has been resolved and approximately \$6 million remains in dispute. The Company believes that the remaining amount in dispute is without merit and that these issues will be resolved with no or an immaterial amount of tax due.

#### b. Government Payments

During the second quarter of 2013, the Company made a payment of \$2.7 million related to accrued dividends to the Republic of Senegal in respect of its existing 10 percent minority interest. A payment of \$2.7 million will be required once drilling activities recommence at Niakafiri. The Company has also agreed to advance an estimated \$8.0 million of accrued dividends to be paid in 2014 and 2015 which was estimated based on a gold price of \$1,600 per ounce. For the year ended December 31, 2013, approximately \$5.2 million has been accrued based on net sales revenue.

The Company is required to make a payment of approximately \$4.2 million related to the waiver of the right for the Republic of Senegal to acquire an additional equity interest in the Gora project. The payment is expected to be made upon receipt of all required approvals authorizing the processing of all Gora project ore through the Sabodala plant.

The Company has agreed to establish a social development fund targeted at \$15.0 million, payable to the Republic of Senegal at the end of the operational life. The payment, after applying a discount rate, was accrued for the year ended December 31, 2013.

The Company is required to make a payment of \$10.0 million related to the waiver of the right for the Republic of Senegal to acquire an additional equity interest in the Satellite Deposits integrated into the SGO Mining Concession. The payment is expected to be made upon receipt of all permits required to integrate the Somigol project into the SGO mining concession.

### c. OJVG Tax Assessment

In 2012, OJVG received a tax assessment from the Senegalese tax authorities claiming withholding tax on payments made to third parties during 2009 to 2012 and \$1.3 million was accrued during this period. During the third quarter of

2013, OJVG received a revised tax assessment for approximately \$0.7 million, including penalties and accordingly reversed \$0.6 million of the original accrual. During the fourth quarter of 2013, the tax dispute was resolved and a payment of \$0.2 million was made in full settlement.

## 32. EXPLORATION LICENSES AND JOINTLY CONTROLLED OPERATIONS AND ASSETS

The Company has exploration licenses and is a venturer in the following jointly controlled operations and assets:

Name of venture	Principal activity	Interest 2013 percent
Dembala Berola	Gold exploration	100%
Massakounda	Gold exploration	100%
Senegal Nominees JV – Bransan	Gold exploration	70%
AXMIN JV – Sabodala NW <sup>(i)</sup>	Gold exploration	80%
AXMIN JV – Heremakono	Gold exploration	80%
AXMIN JV – Sounkounkou	Gold exploration	80%
Bransan Sud	Gold exploration	100%
Sabodala Ouest	Gold exploration	100%
Saiansoutou	Gold exploration	100%
Garabourea North	Gold exploration	75%

<sup>(i)</sup> The permit for AXMIN JV – Sabodala NW expired and the Company has applied for an extension.

### Exploration Commitments and Contingent Liabilities

Exploration commitments and contingent liabilities are disclosed in Notes 30 and 31.

## 33. CONTROLLED ENTITIES

	Country of Incorporation	Percentage owned 2011
Controlled entities consolidated		
Teranga Gold B.V.I. Corporation <sup>(i)</sup>	British Virgin Islands	100%
Sabodala Gold (Mauritius) Limited <sup>(ii)</sup>	Mauritius	100%
SGML (Capital) Limited	Mauritius	100%
Oromin Explorations Limited <sup>(iv)</sup>	Canada	100%
Subsidiaries of Sabodala Gold (Mauritius) Limited:		
Sabodala Mining Company SARL <sup>(iii)</sup>	Senegal	100%
Sabodala Gold Operations SA <sup>(iii)</sup>	Senegal	90%

<sup>(i)</sup> Teranga Gold (B.V.I.) Corporation, a wholly owned subsidiary of Teranga Gold Corporation, was incorporated under the BVI Business Companies Act, 2004 on November 10, 2010. In connection with the Demerger Arrangement and pursuant to a deed of assignment of debt among Teranga Gold Corporation, Teranga Gold (B.V.I.) Corporation, MDL Gold Limited, Sabodala Gold (Mauritius) Limited and Sabodala Gold Operations SA dated November 23, 2010, Teranga Gold (B.V.I.) Corporation took assignment of an inter-corporate receivable of \$234,300,000 owed by Sabodala Gold Operations SA to Sabodala Gold (Mauritius) Limited as assigned to MDL Gold Limited in consideration for 1,000,000 ordinary shares of Teranga Gold (B.V.I.) Corporation registered in the name of Teranga Gold Corporation.

<sup>(ii)</sup> Pursuant to the Uniform Act (OHADA) governing the Company's "SA" Senegalese subsidiaries, the Board of Directors must have at least three and no more than 12 directors (other than in particular circumstances). Members of the board do not have to be shareholders; however, no more than one-third of the members of the board may be non-shareholders. Teranga is the majority (90 percent) shareholder of SGO through its wholly owned subsidiary Sabodala Gold (Mauritius) Limited. A sufficient number of directors representing SGML (the Mauritius holding company) were elected to the Board of Directors of SGO, in addition to the two resident directors with executive responsibility, to ensure adequate representation at all board meetings, the minority shareholder (Republic of Senegal) being entitled to two board seats, one representing the State and the other being held by a non-shareholder Senegalese public servant. To meet the requisite shareholder requirement for the Board of Directors of SGO, five of the current board members (four of which are also directors of SGML) were issued one share each for a total of 0.5 percent in SGO with the other 89.5 percent issued to and held by the Mauritian parent SGML. On death or resignation, a share individually held would be transferred to another representative of SGML or added to its current 89.5 percent shareholding according to the circumstances at the time.

<sup>(iii)</sup> Under the terms of the Macquarie loan facility, SGML and SGO have pledged their shares in favour of Macquarie Bank Limited as security.

<sup>(iv)</sup> On October 4, 2013, the Company completed the acquisition of all of the issued and outstanding common shares of Oromin that it did not already own, issuing 71,183,091 Teranga shares for net consideration of \$37.8 million, including the fair value of Oromin stock options replaced by 7,911,600 Teranga stock options.

## 34. CASH FLOW INFORMATION

### a. Change in Working Capital

	For the year ended December 31	
	2013	2012
<b>Changes in working capital</b>		
Decrease/(increase) in trade and other receivables	(1,613)	13,965
Decrease/(increase) in other assets	1,108	5,915
Increase/(decrease) in trade and other payables	5,505	5,660
Increase/(decrease) in provisions	(188)	1,030
<b>Net change in working capital</b>	<b>4,812</b>	<b>26,570</b>

### b. Cash Balances Restricted for Use

During the third quarter of 2013, the Company amended its existing \$60.0 million Loan Facility. The amended agreement had extended the final repayment date of its existing loan facility agreement by one year to June 30, 2015. The Company was required to maintain a restricted cash balance of up to \$20.0 million. The Company is permitted to withdraw a portion of the \$20 million restricted cash balance, such that the Project Life Ratio is no less than 2.2:1.

Subsequent to year-end on January 15, 2014, the Company amended the Loan Facility and retired half of the balance for \$30.0 million. The remaining balance of \$30.0 million is scheduled to be repaid in three quarterly instalments of \$5.0 million beginning on March 31, 2014. The final \$15.0 million will be repaid on December 31, 2014. The amended Loan Facility agreement reduces the restricted cash requirement by \$5.0 million to \$15.0 million and removes the Project Life Ratio financial covenant.

## 35. FINANCIAL INSTRUMENTS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

### a. Capital Risk Management

The Company's objectives when managing its capital are to safeguard the Company's ability to continue as a going concern while maximizing the return to stakeholders through optimization of the debt and equity balance.

The capital structure of the Company consists of cash and cash equivalents, debt, and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated income. The Company is not subject to any externally imposed capital requirements. At \$1,250 per ounce gold, the Company expects to generate sufficient cash flow to retire the balance of the Loan facility and the majority of the mobile equipment loan. The Company's cash position is highly dependent on the gold price. The Company is continually reviewing operating, development and exploration expenditures in order to ensure adequate liquidity and flexibility exists to support debt repayments.

The leverage ratio as at December 31, 2013 was as follows:

	As at December 31, 2013	As at December 31, 2012
Borrowings	(74,369)	(68,608)
Cash and cash equivalents	14,961	39,722
Restricted Cash	20,000	—
<b>Net debt</b>	<b>(39,408)</b>	<b>(28,886)</b>
<b>Equity attributable to the shareholders</b>	<b>453,989</b>	<b>375,453</b>
<b>Net debt to equity ratio</b>	<b>9%</b>	<b>8%</b>

## b. Categories of Financial Instruments

As at December 31, 2013 and 2012, the Company's financial instruments consisted of cash and cash equivalents, trade and other receivables, trade and other payables, borrowings and derivative financial assets and liabilities.

The following table illustrates the classification of the Company's financial instruments as at December 31, 2013 and 2012:

	As at December 31, 2013	As at December 31, 2012
<b>Financial assets:</b>		
Loans and receivables		
Cash and cash equivalents	14,961	39,722
Restricted cash	20,000	–
Trade and other receivable	7,999	6,482
Assets at fair value through profit or loss		
Financial derivative assets	–	456
Available-for-sale		
Available-for-sale financial assets	6	15,010
<b>Financial liabilities:</b>		
Other financial liabilities at amortized cost		
Borrowings	74,369	68,608
Trade and other payables	67,959	45,758
Liabilities at fair value through profit and loss		
Financial derivative liabilities	–	51,548

## c. Commodity Market Risk

Market risk represents the potential loss that can be caused by a change in the market value of financial instruments. The Company's exposure to market risk is determined by a number of factors, including foreign exchange rates and commodity prices. The Company is exposed to movements in the gold price.

nated in CFA Franc, EUR, CAD, AUD and other currencies. Consequently, the Company is exposed to the risk that the exchange rate of the USD relative to the CFA Franc, EUR, CAD, AUD and other currencies may change in a manner which has a material effect on the reported values of the Company's assets and liabilities which are denominated in the CFA Franc, EUR, CAD, AUD and other currencies.

## d. Foreign Currency Risk Management

The Company has certain financial instruments denomi-

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities is as follows:

	Financial Assets		Financial Liabilities	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
CFA Franc (XOF)	9,054	2,349	43,366	30,672
EUR	1,209	1,486	2,872	3,714
CAD	704	483	6,138	2,398
Other	224	250	336	118
AUD	199	213	371	898

## Foreign Currency Sensitivity Analysis

The Company is mainly exposed to CFA Franc, EUR, CAD and AUD. Ten percent represents management's assessment of the reasonably possible change in foreign exchange rates. Sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at period-end for a 10 percent change in the functional currency rates. A negative number indicates a decrease in profit

or equity where the functional currency strengthens 10 percent against the relevant currency for monetary assets and where the functional currency weakens against the relevant currency for monetary liabilities. For a 10 percent weakening of USD against the relevant currency for monetary assets and a 10 percent strengthening for monetary liabilities, there would be an equal and opposite impact on net assets and the balances would be positive.



	Financial Assets		Financial Liabilities	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<b>10% Strengthening</b>				
<b>CFA Franc (XOF) Impact</b>				
Profit or loss	(905)	(235)	4,337	3,067
<b>EUR Impact</b>				
Profit or loss	(121)	(149)	287	371
<b>CAD Impact</b>				
Profit or loss	(70)	(48)	614	240
<b>AUD Impact</b>				
Profit or loss	(20)	(21)	37	90
<b>10% Weakening</b>				
<b>CFA Franc (XOF) Impact</b>				
Profit or loss	905	235	(4,337)	(3,067)
<b>EUR Impact</b>				
Profit or loss	121	149	(287)	(371)
<b>CAD Impact</b>				
Profit or loss	70	48	(614)	(240)
<b>AUD Impact</b>				
Profit or loss	20	21	(37)	(90)

### *Foreign Currency Exchange Contracts*

The Company has not entered into forward exchange contracts to buy or sell specified amounts of foreign currencies in the future at stipulated exchange rates.

### **e. Interest Rate Risk Management**

Interest rate risk is the risk that the value of a financial instru-

ment will fluctuate because of changes in the market interest rates. The Company has exposure to interest rate risk relating to its bank balances and external borrowings.

The following table illustrates the classification of the Company's financial instruments which are exposed to interest rate risk as at December 31, 2013 and 2012:

	As at December 31, 2013	As at December 31, 2012
<b>Financial assets</b>		
Cash and cash equivalents	14,961	39,722
Restricted cash	20,000	—
<b>Total</b>	<b>34,961</b>	<b>39,722</b>
<b>Financial liabilities</b>		
Borrowings	74,369	68,608
<b>Total</b>	<b>(39,408)</b>	<b>(28,886)</b>

The Company's interest rate on its borrowings is calculated at LIBOR plus 7.5 percent and 10 percent margin on the Equipment Facility and Loan Facility, respectively.

### *Interest Rate Sensitivity Analysis*

If interest rates had been higher or lower by 50 basis points and all other variables were held constant, the profit and net assets would increase or decrease by:

	Financial Assets		Financial Liabilities	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Profit or loss	203	131	391	312
Other equity	—	—	—	—

## f. Credit Risk Management

The Company's credit risk is primarily attributable to cash, cash equivalents and derivative financial instruments. The Company does not have any significant credit risk exposure as cash and cash equivalents are held in low-risk jurisdictions. The Company has adopted a strategy to minimize its credit risk by substantially investing in sovereign debt issued by Canadian government agencies, Canadian Provinces and the Federal Government of Canada.

The Company does not have significant credit risk exposure on accounts receivable as all gold sales are executed through Macquarie Bank, a AAA-rated bank. Gold production is sold into the spot market and deposited into the Company's bank account.

The Company is exposed to the credit risk of Senegal and France banks that disburse cash on behalf of its Senegal subsidiaries. The Company manages its Senegal and France bank credit risk by centralizing custody, control and management of its surplus cash resources in Canada at the corporate office and only transferring money to its subsidiary based on immediate cash requirements, thereby mitigating exposure to Senegal banks.

## g. Liquidity Risk Management

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company monitors its risk of a shortage using projected cash flows and by monitoring the maturity of both its financial assets and liabilities.

Cash flow forecasting is performed in the operating entity of the group and combined by the Company's finance group. The Company's finance group monitors the liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom in its proceeds account so that the Company does not breach any of its covenants. Surplus cash held by the Corporate office is invested in short-term investments issued by Canadian banks and in sovereign debt issued by Canadian Agencies, Provinces and the Federal Government of Canada.

### Liquidity Tables

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate percent	Due on demand	Due one to three months	Due between three months to one year	Due one to five years
<b>Financial Liabilities</b>					
<b>December 31, 2013</b>					
Non-interest bearing	—	33,273	1,200	16,296	5,195
Variable interest rate instruments	7.77%	—	3,194	9,581	4,192
Fixed interest rate instruments	3.08%	—	—	925	1,750
Variable interest rate instruments	9.13%	60,000	—	—	—
<b>Total</b>		<b>93,273</b>	<b>4,394</b>	<b>26,802</b>	<b>11,137</b>
<b>December 31, 2012</b>					
Non-interest bearing	—	30,121	—	10,927	—
Variable interest rate instruments	3.31%	—	2,400	1,706	—
Variable interest rate instruments	4.46%	—	2,133	4,266	—
Fixed interest rate instruments	6.00%	3,776	—	—	—
Variable interest rate instruments	10.31%	—	—	—	60,000
Derivatives <sup>(i)</sup>	—	—	15,702	35,846	—
<b>Total</b>		<b>33,897</b>	<b>20,235</b>	<b>52,745</b>	<b>60,000</b>
<b>Financial Assets</b>					
<b>December 31, 2013</b>					
Non-interest bearing	—	7,999	—	—	—
<b>Total</b>		<b>7,999</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>December 31, 2012</b>					
Non-interest bearing	—	6,482	—	—	—
Derivatives <sup>(ii)</sup>	—	—	456	—	—
<b>Total</b>		<b>6,482</b>	<b>456</b>	<b>—</b>	<b>—</b>

<sup>(i)</sup> Expected to be settled through delivery of gold.

<sup>(ii)</sup> Expected to be settled in cash on a net basis.

Management considers that the Company has adequate current assets and forecasted cash flow from operations to manage liquidity risks arising from settlement of current and non-current liabilities.

### h. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value.

The Company values instruments carried at fair value using quoted market prices, where available. Quoted market prices

(unadjusted) in active markets represent a Level 1 valuation. When quoted market prices in markets are not available, the Company maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The following table outlines financial assets and liabilities measured at fair value in the consolidated financial statements and the level of the inputs used to determine those fair values in the context of the hierarchy as defined above:

Financial assets				
	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Aggregate Fair Total
<b>December 31, 2013</b>				
Cash and cash equivalents	14,961	–	–	14,961
Restricted cash	20,000	–	–	20,000
Trade and other receivables	7,999	–	–	7,999
Available for sale financial assets	6	–	–	6
<b>Total</b>	<b>42,966</b>	<b>–</b>	<b>–</b>	<b>42,966</b>
<b>December 31, 2012</b>				
Cash and cash equivalents	39,722	–	–	39,722
Restricted cash	–	–	–	–
Trade and other receivables	6,482	–	–	6,482
Available for sale financial assets	15,010	–	–	15,010
Derivative financial assets	–	456	–	456
<b>Total</b>	<b>61,214</b>	<b>456</b>	<b>–</b>	<b>61,670</b>
Financial liabilities				
	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Aggregate Fair Total
<b>December 31, 2013</b>				
Trade and other payables	56,891	11,068	–	67,959
Borrowings	–	74,369	–	74,369
Derivative financial liabilities	–	–	–	–
<b>Total</b>	<b>56,891</b>	<b>85,437</b>	<b>–</b>	<b>142,328</b>
<b>December 31, 2012</b>				
Trade and other payables	44,823	935	–	45,758
Borrowings	–	68,608	–	68,608
Derivative financial liabilities	–	51,548	–	51,548
<b>Total</b>	<b>44,823</b>	<b>121,091</b>	<b>–</b>	<b>165,914</b>

We do not offset financial assets with financial liabilities.

## 36. SHARE-BASED COMPENSATION

The share-based compensation expense for the year ended December 31, 2013 totalled \$0.8 million (2012: \$4.7 million).

### a. Incentive Stock Option Plan

The Incentive Stock Option Plan (the “Plan”) authorizes the directors to grant options to purchase shares of the Company to directors, officers, employees and consultants of the Company and its subsidiaries. The exercise price of the options is determined by the Board of Directors at the date of grant but in no event shall be less than the five-day weighted average closing price of the common shares as reported on the TSX for the period ended on the business day immediately preceding the day on which the option was granted.

The vesting of options is determined by the Board of Directors at the date of grant. The term of options granted under the Plan is at the discretion of the Board of Directors, provided that such term cannot exceed ten years from the date the option is granted.

Each employee share option is convertible into one ordinary share of Teranga on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry subject to the terms of the Plan.

During the years ended December 31, 2013 and 2012, a total of 820,000 and 3,580,000 common share options, respectively, were granted to directors and employees.

During the years ended December 31, 2013 and 2012, a total of 2,132,917 and 4,058,055 options were forfeited, respectively. No stock options were exercised during the years ended December 31, 2013 and 2012.

In connection with the acquisition of Oromin during the third quarter, Teranga issued 7,911,600 replacement stock options.

The following stock options were outstanding as at December 31, 2013:

Option series	Number	Grant date	Expiry date	Exercise price (C\$)	FV at grant date (C\$)
Granted on November 26, 2010	7,003,333	26-Nov-10	26-Nov-20	3.00	1.19
Granted on December 3, 2010	2,225,000	03-Dec-10	03-Dec-20	3.00	1.19
Granted on February 9, 2011	725,000	09-Feb-11	09-Feb-21	3.00	0.99
Granted on April 27, 2011	25,000	27-Apr-11	27-Apr-21	3.00	0.80
Granted on June 14, 2011	455,000	14-Jun-11	14-Jun-21	3.00	0.94
Granted on August 13, 2011	367,222	13-Aug-11	13-Aug-21	3.00	0.82
Granted on December 20, 2011	1,512,917	20-Dec-11	20-Dec-21	3.00	0.61
Granted on February 24, 2012	768,889	24-Feb-12	24-Feb-22	3.00	0.37
Granted on February 24, 2012	300,000	24-Feb-12	24-Feb-22	3.00	1.26
Granted on June 5, 2012	50,000	05-Jun-12	05-Jun-22	3.00	0.17
Granted on September 27, 2012	600,000	27-Sep-12	27-Sep-22	3.00	0.93
Granted on October 9, 2012	600,000	09-Oct-12	06-Oct-22	3.00	1.01
Granted on October 31, 2012	80,000	31-Oct-12	31-Oct-22	3.00	0.52
Granted on October 31, 2012	180,000	31-Oct-12	31-Oct-22	3.00	0.18
Granted on December 3, 2012	200,000	03-Dec-12	03-Dec-22	3.00	0.61
Granted on February 23, 2013	383,889	23-Feb-13	23-Feb-23	3.00	0.42
Granted on February 23, 2013	40,000	23-Feb-13	23-Feb-23	3.00	0.25
Granted on May 14, 2013	190,000	14-May-13	14-May-23	3.00	0.82
Granted on June 3, 2013	120,000	03-Jun-13	03-Jun-23	3.00	0.71
Granted on August 6, 2013	573,600	06-Aug-13	06-Feb-15	1.09	*
Granted on August 6, 2013	45,000	06-Aug-13	06-Feb-15	1.50	*
Granted on August 6, 2013	4,437,600	06-Aug-13	06-Feb-15	1.54	*
Granted on August 6, 2013	120,000	06-Aug-13	06-Feb-15	1.87	*
Granted on August 6, 2013	2,735,400	06-Aug-13	06-Feb-15	2.17	*

\* As part of the Oromin acquisition, 7,911,600 replacement stock options were issued which vested immediately.

As at December 31, 2013, approximately 15.9 million (2012: 7.4 million) options were available for issuance under the Plan.

The estimated fair value of share options is amortized over the period in which the options vest which is normally three years. For those options which vest on single or multiple dates, either on issuance or on meeting milestones (the

“measurement date”), the entire fair value of the vesting options is recognized immediately on the measurement date.

Of the 23,737,850 common share stock options issued and outstanding as at December 31, 2013, 15,651,250 vest over a three-year period, 7,911,600 vested immediately and 175,000 vest based on achievement of certain milestones.

The fair value of options that vest upon achievement of milestones will be recognized based on the best estimate of outcome of achieving our results.

As at December 31, 2013, 15,826,250 share options had a contractual life of 10 years at issuance and 7,911,600 share

options issued in connection with the acquisition of Oromin have a remaining contractual life of 13 months.

#### *Fair Value of Stock Options Granted*

The fair value at the grant date was calculated using Black-Scholes option pricing model with the following assumptions:

	For the year ended December 31	
	2013	2012
Grant date share price	C\$0.71–C\$1.44	C\$2.10–C\$2.58
Exercise price	C\$3.00	C\$3.00
Range of risk-free interest rate	1.04%–1.20%	0.99%–1.43%
Volatility of the expected market price of share	67.28%–68.30%	43.7%–61.62%
Expected life of options	2.00–3.50	1.25–5.00
Dividend yield	0%	0%
Forfeiture rate	5%–50%	0%–30%

Due to lack of sufficient historical information for the Company, volatility was determined using the existing historical volatility information of the Company's share price combined with the industry average for comparable-size mining companies.

#### *Movements in Shares Options During the Period*

The following reconciled the share options outstanding at the beginning and end of the period:

	Number of options	Weighted average exercise price
Balance at end of the year – January 1, 2012	17,617,222	C\$3.00
Granted during the year	3,580,000	C\$3.00
Forfeited during the year	(4,058,055)	C\$3.00
<b>Balance at end of the year – December 31, 2012</b>	<b>17,139,167</b>	<b>C\$3.00</b>
Granted during the year	820,000	C\$3.00
Replacement stock options issued to Oromin employees on change of control	7,911,600	C\$0.65–C\$1.30
Forfeited during the year	(2,132,917)	C\$3.00
<b>Balance at end of the year – December 31, 2013</b>	<b>23,737,850</b>	<b>C\$3.00</b>
<b>Number of options exercisable – December 31, 2012</b>	<b>10,736,662</b>	
<b>Number of options exercisable – December 31, 2013</b>	<b>20,640,532</b>	

There were no options exercised during the years ended December 31, 2013 and December 31, 2012.

#### **b. Fixed Bonus Plan**

The Fixed Bonus Plan authorizes the Directors to grant Fixed Bonus Plan Units ("Units") to officers and employees of the Company and its subsidiaries in lieu of participating in the Stock Option Plan. Each Unit entitles the holder upon exercise to receive a cash payment equal to the closing price of a common share of Teranga on the TSX on the business day prior to the date of exercise, less the exercise price. Units may be exercised at any time from the date of vesting to the date of their expiry subject to the terms of the plan. Units are not transferable or assignable.

The exercise price of each Unit is determined by the Board of Directors at the date of grant but in no event shall be less than the five-day weighted average closing price of the common shares as reported on the TSX for the period ended on the business day immediately preceding the day on which the option was granted.

The vesting of the Units is determined by the Board of Directors at the date of grant. The term of Units granted under the Fixed Bonus Plan is at the discretion of the Board of Directors, provided that such term cannot exceed 10 years from the date that the Units are granted.

The Fixed Bonus Plan was introduced during the third quarter of 2012. As at December 31, 2013, a total of 1,440,000 Units were outstanding (December 31, 2012: 1,440,000 Units). During the year ended December 31, 2013, no Units were forfeited or exercised.

As at December 31, 2013, there were 1,440,000 Units outstanding that were granted on August 8, 2012 with expiry dates ranging from November 24, 2020 through to February 24, 2022. The Units each have an exercise price of C\$3.00 and have fair values at December 31, 2013 in the range of C\$0.01 to C\$0.11 per Unit. The total fair value of the Units at December 31, 2013 was \$0.1 million (December 31, 2012: \$0.9 million).

The estimated fair values of the Units were amortized over the period in which the Units vest. Of the 1,440,000 Units issued, 50 percent vested upon issuance, 25 percent vested on December 31, 2012 and 25 percent vested on December 31, 2013.

### *Fair Value of Units Granted*

The fair value was calculated using Black-Scholes pricing model with the following assumptions:

	For the year ended December 31	
	2013	2012
Share price at the end of the period	C\$0.53	C\$2.26
Exercise price	C\$3.00	C\$3.00
Range of risk-free interest rate	1.12%–1.95%	1.13%–1.38%
Volatility of the expected market price of share	66.71%–68.30%	43.70%–61.62%
Expected life of options	2.00–5.00	1.25–5.00
Dividend yield	0%	0%
Forfeiture rate	5%–50%	6%–30%

Due to lack of sufficient historical information for the Company, volatility was determined using the existing historical volatility information of the Company's share price combined with the industry average for comparable-size mining companies.

## 37. SEGMENT REPORTING

The Company has one reportable operating segment under IFRS 8 operating segments relating to the gold activity.

### Geographical Information

The Company operates in two geographical areas, predominantly in Senegal (West Africa) and Mauritius.

The following table discloses the Company's revenue by geographical location:

	For the year ended December 31	
	2013	2012
Republic of Senegal – revenue from gold and silver sales	297,927	350,520
Republic of Senegal – interest income	51	31
Mauritius	–	–
Canada	1	5
<b>Total</b>	<b>297,979</b>	<b>350,556</b>

The following is an analysis of the Company's non-current assets by geographical location:

	As at December 31, 2013	As at December 31, 2012
Republic of Senegal	456,523	419,288
Mauritius	–	–
Canada	51,722	1,778
<b>Total</b>	<b>508,245</b>	<b>421,066</b>

### 38. KEY MANAGEMENT PERSONNEL COMPENSATION

The Company considers key members of management to include the Chairman, President and CEO, Vice Presidents and the General Manager and Government Relations Manager of SGO.

The remuneration of the key members of management includes eight members during the twelve months ended December 31, 2013 and 9 members during the twelve months ended December 31, 2012. The remuneration during the twelve months ended December 31, 2013 and 2012 is as follows:

	Short-term benefits		Cash-settled share-based payments – value vested during the period	Equity settled share-based payments – value vested during the period	
	Salary and Fees	Non-Cash Benefits	Cash Bonus	Options	Total
<b>For the year ended December 31, 2013</b>					
Compensation	2,839	267	–	108	1,110
<b>For the year ended December 31, 2012</b>					
Compensation	2,668	130	1,076	898	1,881

### 39. RELATED PARTY TRANSACTIONS

At December 31, 2013, the Company has a receivable of \$411 due from the OJVG for project management fees.

During the year ended December 31, 2013, there were transactions of \$0.3 million between the Company and a director-related entity.

### 40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors on February 20, 2014.



## ASX LISTING REQUIREMENTS

### Corporate Governance Statement

The Board of Directors (the “Board”) of Teranga Gold Corporation (“Teranga” or the “Company”) is committed to adhering to the highest possible standards in its corporate governance practices. The Board has approved Corporate Governance Guidelines which, together with the Board Mandate (as set out below), the position descriptions for the Chairman of the Board and for the Chief Executive Officer, and the charters of the committees of the Board, provide the general framework for the governance of Teranga. The Board believes that these guidelines will continue to evolve in order to comply with all applicable regulatory and stock exchange requirements relating to corporate governance and will be modified as circumstances warrant.

This report describes the corporate governance principles that the Company adheres to in accomplishing its business objectives. Governance information on Teranga is available on the Company’s website at: [www.terangagold.com](http://www.terangagold.com).

### PRINCIPLE 1: LAY SOLID FOUNDATION FOR MANAGEMENT AND OVERSIGHT

#### *Board Mandate*

The Board is elected by the shareholders of Teranga and is responsible for the stewardship of Teranga and has adopted a formal written mandate setting out the Board’s stewardship responsibilities, including:

- adopting a strategic planning process;
- understanding and monitoring the political, cultural, legal and business environments in which Teranga operates;
- risk identification and ensuring that procedures are in place for the management of those risks;
- review and approve annual operating plans and budgets;
- corporate social responsibility, ethics and integrity;
- succession planning, including the appointment, training and supervision of management;

- delegations and general approval guidelines for management;
- monitoring financial reporting and management;
- monitoring internal control and management information systems;
- corporate disclosure and communications;
- adopting measures for receiving feedback from stakeholders; and
- adopting key corporate policies designed to ensure that Teranga, its directors, officers and employees comply with all applicable laws, rules and regulations and conduct their business ethically and with honesty and integrity.

#### *Day-to-day Management*

The Board delegates responsibility for the day-to-day management of Teranga’s business and affairs to Teranga’s senior officers and supervises such senior officers appropriately.

#### *Committees of the Board*

The Board has determined that there should be six standing Board committees: (i) Audit Committee; (ii) Corporate Governance and Nominating Committee; (iii) Compensation Committee; (iv) Finance Committee; (v) Technical, Safety, and Environment Committee; and (vi) Corporate Social Responsibility Committee. The Board will change the Board committee structure and authorize and appoint other committees as it considers appropriate.

The Board may, from time to time, delegate certain matters it is responsible for to Board committees. The Board, however, retains its oversight function and ultimate responsibility for these matters and all delegated responsibilities.

The Corporate Governance and Nominating Committee reviews the adequacy of the Board Mandate on an annual basis and recommends any proposed changes to the Board for consideration. The Board has delegated responsibility to this Committee for developing Teranga’s approach to corporate governance, including recommending modifications to these Corporate Governance Guidelines for consideration by the Board.

### *Committee Charters*

The Board approves written charters for each committee of the Board setting forth the purpose, authority, duties and responsibilities of each committee, as set forth further below. The charter for each committee is available on the Company's website at: [www.terangagold.com](http://www.terangagold.com).

The Board has determined that all committees will be comprised entirely of directors determined by the Board to be independent, except for the Technical, Safety, Environment and Social Responsibility Committee which will be comprised of a majority of independent directors. In addition, all members of the Audit Committee will be financially literate and if required by applicable laws, rules and regulations, at least one member will be a financial expert. Membership and independence of all committee members will be publicly disclosed.

After receipt of recommendations from the Corporate Governance and Nominating Committee, the Board appoints members of the committees annually, and as necessary to fill vacancies, and appoints the chairman of each committee. Members of the committees will hold office at the pleasure of the Board.

### *Committee Responsibilities*

The responsibilities of the Audit Committee include assisting the Board in fulfilling its oversight responsibilities with respect to: (a) financial reporting and disclosure requirements; (b) ensuring that an effective risk management and financial control framework has been implemented and tested by management of Teranga; and (c) external and internal audit processes.

The responsibilities of the Corporate Governance and Nominating Committee include assisting the Board in fulfilling its oversight responsibilities with respect to: (a) developing corporate governance guidelines and principles for Teranga; (b) identifying individuals qualified to be nominated as members of the Board; (c) the structure and composition of Board committees; and (d) evaluating the performance and effectiveness of the Board.

The responsibilities of the Compensation Committee include assisting the Board in fulfilling its oversight responsibilities with respect to: (a) the establishment of key human resources and compensation policies, including all incentive- and equity-based compensation plans; (b) the performance evaluation of the Chief Executive Officer and the Chief Financial

Officer, and determination of the compensation for the Chief Executive Officer, the Chief Financial Officer and other senior executives of Teranga; (c) succession planning, including the appointment, training and evaluation of senior management; and (d) compensation of directors.

The responsibilities of the Finance Committee include assisting the Board in fulfilling its oversight responsibilities with respect to: (a) Teranga's financial policies and strategies, including capital structure; (b) Teranga's financial risk management practices; and (c) proposed issues of securities and utilization of financial instruments.

The responsibilities of the Technical, Safety and Environment include assisting the Board in fulfilling its oversight responsibilities with respect to: (a) technical matters relating to exploration, development, permitting, construction and operation of Teranga's mining activities; (b) resources and reserves on Teranga's mineral resource properties; (c) material technical commercial arrangements regarding EPCM activities; (d) operating and production plans for proposed and existing operating mines; (e) due diligence in the development, implementation and monitoring of systems and programs for management, and compliance with applicable law related to health, safety, environment and social responsibility; (f) ensuring Teranga implements best-in-class property development and operating practices; (g) monitoring safety, environment and social responsibility performance; and (h) monitoring compliance with applicable laws related to safety, environment and social responsibility.

The responsibilities of the Corporate Social Responsibility Committee is to assist the Board in the development, implementation and monitoring of systems and programs for management, and compliance with applicable law related to corporate social responsibility, monitoring corporate social responsibility performance, and monitoring compliance with applicable laws related to corporate social responsibility.

### *Management Performance and Compensation*

The Compensation Committee conducts an annual review of the performance objectives for the Chief Executive Officer, the Chief Financial Officer and the senior executives and, in the Committee's discretion, presents its conclusions and recommends any compensation changes to the Board for consideration.

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

### *Election by Shareholders*

The members of the Board are selected each year by the shareholders of Teranga at the annual general meeting of shareholders. The Board proposes individual nominees to the shareholders for election to the Board at each such meeting. Between annual meetings of shareholders, the Board may appoint directors to serve until the next such meeting in accordance with Teranga's articles and by-laws.

### *Selection of Chairman of the Board*

The Chairman of the Board is appointed by the Board after considering the recommendation of the Corporate Governance and Nominating Committee. The Board adopts and performs an annual review of the position description for the Chairman of the Board.

### *Role of Chairman and CEO*

The roles of each of the Chairman and the CEO of Teranga are held by two different individuals. The Board has taken the view that given the stage of development of the Company and the unique skill set of the Chairman, it is important that the Chairman be an active member of the executive team and therefore, a non-independent member of the Board.

### *Independence; Lead Director*

The Board is comprised of a majority of independent directors.

The independent directors select an independent director to carry out the functions of a lead director. If Teranga has an independent, non-executive Chairman of the Board, then the role of the lead director is filled by the non-executive Chairman of the Board. The lead director or non-executive Chairman of the Board chairs regular meetings of the independent directors and assumes other responsibilities that the independent directors as a whole have designated.

The primary responsibility of the lead director is to seek to ensure that appropriate structures and procedures are in place so that the Board of Directors may function independently and to lead the process by which the independent directors seek to ensure that the Board of Directors represents and protects the interests of all shareholders. In addition, the lead independent director reviews, comments and is given the op-

portunity to set agendas for meetings of the Board (full Board or independent directors only), oversee the information made available to directors by management and manages requests from or other issues that independent directors may have.

### *Director Selection Criteria*

The Corporate Governance and Nominating Committee is required under its charter to annually review the characteristics, qualities, skills and experience which form the criteria for candidates to be considered for nomination to the Board. The objective of this review will be to maintain the composition of the Board in a way that provides, in the judgment of the Board, the best mix of skills and experience to provide for the overall stewardship of Teranga. All directors are required to possess fundamental qualities of intelligence, honesty, integrity, ethical behaviour, fairness and responsibility and be committed to representing the long-term interests of the shareholders. They must also have a genuine interest in Teranga, the ability to be objective at all times about what is in the best interests of Teranga, have independent opinions on all issues and be both willing and able to state them in a constructive manner and be able to devote sufficient time to discharge their duties and responsibilities effectively. The Committee is mandated to identify qualified candidates for nomination as directors and to make recommendations to the Board. Directors are encouraged to identify potential candidates.

### *Board Size*

The Board has the ability to increase or decrease its size within the limits set out in Teranga's articles and by-laws. The Board will determine its size with regard to the best interests of Teranga. The Board believes that the size of the Board should be sufficient to provide a diversity of expertise and opinions and to allow effective committee organization, yet small enough to enable efficient meetings and decision-making and maximize full Board attendance. The Board will review its size if a change is recommended by the Committee.

### *Term Limits for Directors*

The Board has determined that fixed term limits for directors should not be established. The Board is of the view that such a policy would have the effect of forcing directors off the Board who have developed, over a period of service, increased insight into Teranga and who, therefore, can be ex-

pected to provide an increasing contribution to the Board. At the same time, the Board recognizes the value of some turnover in Board membership to provide fresh ideas and views, and the Corporate Governance and Nominating Committee is mandated to annually consider recommending changes to the composition of the Board.

#### *Director Compensation*

The Board has determined that the directors should be compensated in a form and amount that is appropriate and which is customary for comparative companies, having regard to such matters as time commitment, responsibility and trends in director compensation. The Compensation Committee is mandated to review the compensation of the directors on an annual basis. All compensation paid to directors will be publicly disclosed.

#### *Attendance at Meetings*

Directors are expected to attend all Board and committee meetings either in person or by conference call. A director will notify the Chairman of the Board or of a committee or the Corporate Secretary if the director will not be able to attend or participate in a meeting. Teranga will publicly disclose the directors' attendance record on an annual basis.

#### *Assessment of Board and Committee Performance*

The Corporate Governance and Nominating Committee is mandated to undertake an annual assessment of the overall performance and effectiveness of the Board and each committee of the Board and report on such assessments to the Board. The purpose of the assessments is to ensure the continued effectiveness of the Board in discharging its duties and responsibilities and to contribute to a process of continuing improvement.

### **PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

The Company has implemented a set of core values designed to act as guidelines for the standards of integrity and performance for the Board, Management, employees, and other members of the Company. The Company's vision and values are disclosed on the Company's website.

Employees are responsible for their conduct which is expected to comply with Company policies and procedures including those related to health & safety, social & environmental, equal opportunity, human rights, disclosure and trading in

Company securities. Induction programs and ongoing training are required for each employee and contractor to ensure they are aware and kept up to date of acceptable behaviour and Company policies.

Procedures are in place to record and publicly report each director's shareholdings in the Company.

The Company Secretary is responsible for investigating any reports of unethical practices and reporting the outcomes to the Chairman and the CEO or to the Board, as appropriate.

The Company has created a formal Code of Conduct and Ethics which describe the Company's values, and can be found in the Corporate Governance section of the Company's website. All details describing, prescribing and underpinning ethical conduct are contained in the values and key policies outlined therein.

In summary, Teranga's Code of Conduct includes an equal opportunity requirement mandating that "all employees are to be recruited, and to pursue their careers, free from any form of unwanted discrimination" and that "Teranga shall not discriminate on the basis of age, colour, creed, disability, ethnic origin, gender, marital status, national origin, political belief, race, religion or sexual orientation, unless required for occupational reasons as permitted by law."

#### *Diversity*

Teranga does not have a separate diversity policy, nor does it currently provide statistics on gender diversity within its workforce, or its executive team. The identity of all Board members is disclosed within this Annual Report.

With respect to Teranga's current organization:

- of the seven members of the Board of Directors, one is female;
- within the Corporate office, excluding executive officers, approximately 75 percent of staff are female; and
- within the general workforce in Senegal, approximately 10 percent of employees, including expatriate personnel, and contractors are female.

Further details of Teranga's workforce both in its head office and on-site in Senegal can be found on page 18 of the 2013 Responsibility Report available on the Company's website.

Teranga will be considering the adoption of a diversity policy with its Corporate Governance and Nominating Committee this year. Teranga has not yet set specific measurable objectives for achieving gender diversity as further research and study is required in this regard given the nature, location and requirements of our mining operations abroad. Once the Corporate Governance Committee and Nominating Committee has investigated the necessity of a diversity policy, as well as what may be appropriate measurable objectives, it shall update the market in this regard and will provide reporting against such measures in its future Annual Reports. While paramount importance is given to identifying the right candidate for each key role within the Company, Teranga recognizes the importance of gender diversity and as such is focused on recruiting women into all available roles.

#### **PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

The primary function of the audit committee of the Board (the “Audit Committee”) is to assist the Board in fulfilling its financial reporting and controls responsibilities to Shareholders’ Information with respect to the Audit Committee as contained in the Company’s Annual Information Form.

##### *Composition of the Audit Committee*

The Audit Committee of the Company is currently comprised of three independent members. All members of the Audit Committee are financially literate in that they have the ability to read and understand a set of financial statements that are of the same breadth and level of complexity of accounting issues as can be reasonably expected to be raised by the Company’s financial statements.

##### *Relevant Education and Experience*

For summary details regarding the relevant education and experience of each member of the Audit Committee relevant to the performance of his duties as a member of the Audit Committee, please refer to the Corporate Governance page of the Company’s website: [www.terangagold.com](http://www.terangagold.com).

##### *Audit Committee Oversight*

At no time since the commencement of the Company’s most recently completed financial year did the Board decline to adopt a recommendation of the Audit Committee to nominate or compensate an external auditor. The Audit Committee is chaired by an independent director who is not the Chairman of the Board.

#### **PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

Teranga’s Corporate Disclosure Policy is included on its website (under the tab “About Teranga – Corporate Governance”) and sets out a policy that is consistent with the recommendations included under Principle 5.

#### **PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

The Company regularly engages with its shareholders and conducts regular analyst briefings. These activities are supported by the publication of the Annual Report, Quarterly Reports both financial and operational, public announcements and the posting of all press releases (TSX and ASX) on the Company website immediately after their public disclosure. Shareholders can elect to receive email notification of announcements by requesting addition to the Company’s mailing list.

Shareholders are encouraged to attend the Annual General Meeting and to listen to regular conference calls which are scheduled and disclosed publicly. Replays of conference calls are available for a limited time. Details of such replays are outlined on the original conference call scheduling announcement. The external auditor attends the Annual General Meeting and is available to answer questions in relation to the audit of the financial statements.

Teranga does not have a distinct communications policy but its Corporate Disclosure Policy (available on the Company website) does address the matters recommended under Principle 6 with respect to promoting effective communication with shareholders and the effective use of electronic communication.

## PRINCIPLE 7: RECOGNIZE AND MANAGE RISK

The Board will adopt strategic planning processes to establish objectives and goals for Teranga's business and will review, approve and modify as appropriate the strategies proposed by senior management to achieve such objectives and goals. The Board will review and approve, at least on an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of Teranga's business and affairs.

The Board, in conjunction with management, will identify the principal risks of Teranga's business and oversee management's implementation of appropriate systems to effectively monitor, manage and mitigate the impact of such risks. Pursuant to its duty to oversee the implementation of effective risk management policies and procedures, the Board will delegate to the Compensation Committee the responsibility for assessing and implementing risk management policies and procedures directly connected to Teranga's compensation practices. Similarly, the Board will delegate the responsibility of assessing and implementing risk management policies and procedures directly connected to environmental risk management to the Technical, Safety, Environmental and Social Responsibility Committee. The Board will work in conjunction with each Committee, respectively, to oversee the implementation of such policies and procedures.

Under applicable securities laws, Teranga's CEO and CFO are required to certify, on a quarterly basis, on the design and effectiveness of disclosure controls and procedures as well as internal controls over financial reporting, and to indicate any identified weaknesses.

As per the Audit Committee Charter, specifically under Section 4.2 thereof, the Audit Committee is charged with reviewing and making recommendations to the Board regarding Teranga's risk management policies and procedures.

The Board recognizes the importance of managing the risks associated with Teranga's business operations and has defined a set of processes to effectively manage risk within the business. They include (but are not limited to) processes to:

- identify risks relevant to the business to determine what can happen, when and how;
- assess identified risks to determine their potential severity and impact on the business;
- evaluate risks;
- treatment plans for risks deemed unacceptable to the business;
- communicate risk management activities and processes to employees; and
- monitor and review risks, risk mitigation strategies and actions as well as the risk management processes and system.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Teranga operates in the international gold mining industry, which is a highly competitive market for executives and Teranga has designed its compensation program to ensure it is able to both attract and retain qualified and experienced executives with the skills and experience required to execute its strategy.

### *Composition of the Compensation Committee*

The Compensation Committee is comprised of three independent directors and while the Board determines its members, the CEO is not involved in the selection process for this Committee. The chair of the Compensation Committee is a non-executive independent director.



### *Role of the Compensation Committee*

The Compensation Committee is established by the Board to assist the Board in fulfilling its oversight responsibilities relating to compensation. The Compensation Committee helps to ensure that Teranga has a compensation program that will attract, retain, motivate and reward its executive officers for their performance and contribution to achieving Teranga's long-term strategy.

The Board of Teranga established a Compensation Committee on incorporation. Accordingly, the Compensation Committee has been continually in place since January 2010.

The Compensation Committee's primary responsibilities include:

Compensation Philosophy, Policies and Practices – ensure compensation philosophy, policies and practices for the directors, the Chief Executive Officer ("CEO") and the executive officers:

- properly reflect their respective duties and responsibilities;
- are competitive in attracting, retaining and motivating people of the highest quality;
- align the interests of the directors, the CEO and the executive officers with shareholders as a whole;
- are based on established corporate and individual performance objectives; and
- do not encourage the taking of inappropriate or excessive risks.

Evaluation of Performance – annually review and evaluate the performance of the CEO and the executive officers and, in light of pre-established performance objectives, report its conclusions to the Board;

Performance Objectives – annually review the performance objectives for the CEO and the executive officers and, in the Committee's discretion, recommend any changes to the Board for consideration;

Chief Executive Officer Compensation – annually review the compensation for the CEO and, in the Committee's discretion, recommend any changes to the Board for consideration;

Executive Officers' Compensation – annually review the CEO's recommendations for the executive officers' compensation and, in the Committee's discretion, recommend any changes to the Board for consideration;

Succession Planning – annually review Teranga's succession plan for the CEO and the executive officers, including appointment, training and evaluation;

Directors' Compensation – annually review directors' compensation and, in the Committee's discretion, recommend any changes to the Board for consideration;

Mitigation of Compensation Risk – annually consider the risks associated with Teranga's compensation policies and practices, and ensure appropriate risk mitigation measures are adopted.

### *Role of the Chief Executive Officer*

The CEO's role in executive compensation matters includes making recommendations to the Compensation Committee regarding the Company's annual business plan and objectives, which provide the basis for establishing both corporate and individual performance goals for all executive officers. The CEO reviews the performance of the other executive officers, and also makes recommendations with respect to adjustments in base salary, awarding of annual performance incentives, and awarding of long-term equity incentives to such executive officers. The CEO is not involved in the selection process for



the Compensation Committee, or in making recommendations with respect to his own compensation package.

The Compensation Committee reviews the basis for the recommendations of the CEO and, prior to making its recommendations to the Board, exercises its sole discretion in making any modifications to such recommendations.

### *Compensation Philosophy*

The objective of Teranga's compensation program is to attract, retain, motivate and reward its executive officers for their performance and contribution to executing Teranga's long-term strategy to maximize shareholder value. Teranga's compensation policy revolves around a pay for performance philosophy whereby fixed elements of pay, such as salary, are positioned at market median levels for the comparator group, while short and longer-term incentives are structured to provide above market total compensation for high levels of corporate and personal performance. The Compensation Committee believes it is necessary to adopt this compensation philosophy in order to attract and retain qualified executive officers with the skills and experience necessary to execute Teranga's strategy.

The Board seeks to compensate Teranga's executive officers by combining short and long-term cash and equity incentives. It also seeks to reward the achievement of corporate and individual performance objectives, and to align executive officers' incentives with shareholder value creation. The Board also seeks to set company performance goals that reach across all business areas and to tie individual goals to the area of the executive officer's primary responsibility.

The Compensation Committee has reviewed emerging trends in executive compensation which stress pay for performance, short term cash conservation and minimizing shareholder dilution. As a result, the Compensation Committee has recommended to the Board the adoption of both a restricted share unit plan ("RSU Plan") as well as a deferred share unit plan ("DSU Plan") applicable for executive management and the Board of Directors, respectively. RSU's typically vest over three years and are by their nature long-term incentives. The Board of Directors believe the RSU Plan provides the least

risk to Teranga in terms of managing shorter term cash flows, minimizing shareholder dilution while at the same time serving as an effective long term incentive and retention plan for its executive management team. The DSU Plan allows members of the Board of Directors to defer compensation until earned with respect to annual and committee retainer fees as well as meeting fees and to receive deferred share units ("DSUs") instead which are then paid out to the director once he or she ceases to be a member of the Board. The payout of the DSUs is determined by multiplying the number of DSUs at time of departure from the Board by the then five day volume weighted average trading price of a Common Share on the TSX for the five trading days prior to such date. Both of these plans settle in cash and are therefore non-equity based. The Board of Directors believes these compensation schemes, along with existing Incentive Stock Option Plan, base salary and annual cash bonus awards will ensure the appropriate alignment of compensation packages with the overall objective of enhancing shareholder value through an increased share price.

### *Management Performance and Compensation*

The Compensation Committee conducts an annual review of the performance objectives for the Company's executive management group. Compensation changes may be recommended to the Board, at the Committee's discretion, based upon an executive officer's success in meeting or exceeding individual performance goals, as well as contributing to achieving Company performance goals. The Committee also conducts an independent review of current market standards regarding executive compensation, as well as an assessment of Teranga's executive compensation relative to peer industry participants. The Company's executive compensation program is designed to be competitive with those offered by publicly traded mining companies comparable to Teranga in terms of size, assets, production and region of operation.

Further detailed information on director and executive management compensation for the 2013 financial year will be disclosed in the Company's Management Information Circular to be filed with the TSX and ASX prior to April 4, 2014.

**ASX Listing Rule 4.10 – Additional Disclosure**

TGZ Top 20 Shareholders as at February 28, 2014

Rank	Shareholder	Number of Shares	% of Issued Capital
1	State Street Trust	37,231,144	11.75
2	Canaccord Genuity Corp.	24,282,135	7.66
3	Citicorp Nominees Pty Limited	20,566,430	6.49
4	CIBC: CIBC Mellon GSS	20,304,821	6.41
5	National Nominees Limited	17,442,047	5.51
6	JP Morgan Nominees (Australia) Limited	16,635,919	5.25
7	RBC Investor SVCS (Toronto)	15,871,910	5.01
8	HSBC Custody Nominees (Australia) Limited	13,440,684	4.24
9	CIBC World Markets Inc	13,075,543	4.13
10	Depository Trust Company	12,587,943	3.97
11	TD Waterhouse Canada Inc	11,423,092	3.61
12	Haywood Securities	10,522,981	3.32
13	Zero Nominees Pty Ltd	8,325,328	2.63
14	Citibank CDA – Client	7,898,854	2.49
15	Cormark Securities	6,941,500	2.19
16	Royal Bank of Canada	6,848,146	2.16
17	JP Morgan Nominees Australia Limited <Cash Income A/C>	5,844,497	1.84
18	GMP Securities L.P.	4,828,953	1.52
19	NBCN Inc	3,855,943	1.22
20	J.P. Morgan Clearing Corp.	3,766,187	1.19
<b>Total Top Holders Balance</b>		<b>261,694,057</b>	<b>82.61</b>
<b>Total Remaining Holders Balance</b>		<b>55,107,034</b>	<b>17.39</b>
<b>Total Securities on Issue</b>		<b>316,801,091</b>	<b>100.00</b>

Distribution Schedule of CDI holders – as at February 28, 2014

Range	Total Holders	Units	% of Issued Capital
1–1,000	1,047	370,466	0.34
1,001–5,000	857	2,154,313	2.00
5,001–10,000	295	2,191,060	2.03
10,001–100,000	324	8,898,944	8.26
100,001–9,999,999,999	34	94,133,648	87.36
<b>Rounding</b>			<b>0.01</b>
<b>Total</b>	<b>2,557</b>	<b>107,748,431</b>	<b>100.00</b>

**Unmarketable Parcels of Securities, Escrow and On-the-Market Buyback**

As at February 28, 2014, there were 625 security holders with an unmarketable parcel of securities (less than \$500 based on a market price of \$1.13 per unit) totalling 76,376 units.

There are not currently any class of securities the subject of escrow.

There is no current on-the-market buy-back.

## Substantial Shareholders

As at the date of the Annual Report, there were seven substantial shareholders of Teranga.

The details of those shareholders are as follows:

Name	Number of Shares	% of Issued Capital
State Street Trust	37,231,144	11.75
Canaccord Genuity Corp.	24,282,135	7.66
Citicorp Nominees Pty Limited	20,566,430	6.49
CIBC: CIBC Mellon GSS	20,304,821	6.41
National Nominees Limited	17,442,047	5.51
JP Morgan Nominees (Australia) Limited	16,635,919	5.25
RBC Investor SVCS (Toronto)	15,871,910	5.01
<b>Total</b>	<b>152,334,406</b>	<b>48.099</b>

## Share Classes and Voting Rights

There is only a single share class being common shares and CDIs of Teranga Gold Corporation. The total amount of outstanding common shares of Teranga Gold Corporation is 316,801,091.

As detailed in the Annual Report, Teranga is authorized to issue an unlimited number of common shares with no par value. Holders of common shares are entitled to one vote for each common share on all matters to be voted on by shareholders at meetings of Teranga's shareholders. All dividends which the Board of Directors may declare shall be declared and paid in equal amounts per share on all common shares at the time outstanding. There are no pre-emptive, redemption or conversion rights attaching to the common shares. All common shares, when issued, are and will be issued as fully paid and non-assessable shares without liability for further calls or to assessment.

## Issuance of Options to Directors

On November 30, 2010, Teranga received its conditional listing approval from ASX which was subject to a number of conditions ("Listing Conditions"). Teranga received a waiver from ASX Listing Rule 10.14 to the extent necessary to permit Teranga to issue options to Messrs. Hill, Young, Lennox-King, Lattanzi, Thomas and Wheatley pursuant to the terms and conditions contained in Teranga's incentive stock option plan summarized in its IPO prospectus on the condition that:

- (a) the options were issued within three years of the date of admission to the official list of ASX; and
- (b) details of any options that are subsequently issued are published in each annual report of Teranga relevant to the period in which they are issued.

No options were issued during the 2013 fiscal period to any members of the Board.

## Corporate Status

Teranga Gold Corporation (ACN 146 848 508) (Teranga) is a company incorporated under the laws of Canada, with members' liability limited.

### **Not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Cth)**

Teranga is not subject to chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisition of shares in Teranga in relation to substantial holdings and takeovers.

### **Limitations on the acquisition of Teranga securities imposed by Canada**

In Canada, acquisitions of securities by takeover bid are regulated by provincial securities legislation. Generally, under this legislation, an offer to acquire securities from a shareholder resident in a Canadian province which will result in the offeror (including joint actors) holding 20 percent or more of the issued share capital of the company constitutes a takeover bid. Subject to limited exceptions (for example the purchase at not more than a market price of up to 5 percent of outstanding shares over 12 months, private offers to no more than 5 persons at no greater than 115 percent of market price and purchases from treasury) an offeror must:

- (a) provide shareholders with a takeover bid circular describing the terms of the offer and if securities of the offeror form part of the consideration, including prospectus level disclosure about the offeror and its business;
- (b) keep the bid open for at least 35 days; and
- (c) deliver the circular and extend the offer to each shareholder of the company, with the ultimate purchase of shares being pro rata amongst those shareholders who have tendered their shares under the bid. Rules also provide an early warning system to notify the market of significant accumulations of securities.

Under federal corporate law, if a takeover bid is accepted by the holders of not less than 90 percent of the outstanding shares (excluding shares held at the date of the bid by or on behalf of the offeror) the offeror is entitled and the remaining shareholders can require the offeror to acquire the remaining shares either on the same terms of the takeover bid or at fair market value, as elected by the shareholder.

Canadian rules also provide an early warning system to notify the market of significant accumulation of securities. Under the system an acquirer must issue a press release and file a report with provincial securities commission under the initial acquisition (whether from market purchases, treasury or otherwise) of 10 percent or more of the share capital of a public company and thereafter upon acquisition of an additional 2 percent.

The above is only a short summary of certain takeover bid and related requirements and reference must be made to applicable Canadian corporate and securities legislation, including the requirements of the Toronto Stock Exchange, for further details of takeover bid provisions and other regulated transactions such as insider bids, related party transactions and private placements, among others.

## Share Registries

### **Canada: Computershare Trust Company of Canada**

Computershare Trust Company of Canada, 100 University Avenue, 8th Floor, Toronto, Ontario, Canada, M5J 2Y1  
Tel: + 1-800-564-6253

### **Australia: Computershare Investor Services Pty Ltd.**

The Registrar, Computershare Investor Services Pty Limited, GPO Box 2975, Melbourne VIC 3001, Australia  
Tel: + 1-300-850-505

## CORPORATE DIRECTORY

### Directors

**Alan R. Hill**

Chairman

**Richard Young**

President and CEO

**Christopher Lattanzi**

Non-Executive Director

**Edward Goldenberg**

Non-Executive Director

**Alan Thomas**

Non-Executive Director

**Frank Wheatley**

Non-Executive Director

**Jendayi Frazer**

Non-Executive Director

### Senior Management

**Richard Young**

President and CEO

**Mark English**

Vice President, Sabodala Operations

**Paul Chawrun**

Vice President, Technical Services

**Navin Dyal**

Vice President and CFO

**David Savarie**

Vice President, General Counsel  
and Corporate Secretary

**Kathy Sipos**

Vice President, Investor and  
Stakeholder Relations

**Aziz Sy**

Vice President, Development Senegal

**Macoumba Diop**

General Manager and Government  
Relations Manager, SGO

### Registered Office

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Tel: + 1-416-594-0000  
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Email: investor@terangagold.com  
www.terangagold.com

### Senegal Office

2K Plaza  
Suite B4, 1<sup>er</sup> Etage  
Sis la Route due Meridien President  
Dakar Almadies  
Tel: + 221-338-693-181  
Fax: + 221-338-603-683

### Auditor

Ernst & Young LLP

### Share Registries

**Canada: Computershare Trust**

**Company of Canada**

Tel: + 1-800-564-6253

**Australia: Computershare Investor  
Services Pty Ltd.**

Tel: + 1-300-850-505

### Stock Exchange Listings

Toronto Stock Exchange,  
TSX symbol: TGZ  
Australian Securities Exchange,  
ASX symbol: TGZ

For further information please contact:

Kathy Sipos, Vice President, Investor  
and Stakeholder Relations:

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Email: ksipos@terangagold.com





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