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PRESS RELEASE
For Immediate Release

TSX Trading Symbol: TGZ
ASX Trading Symbol: TGZ

DECEMBER QUARTER AND 2012 YEAR END REPORT

Toronto, Canada: February 20, 2013

For a full explanation of Financial, Operating, Exploration and Development results please see the Audited Consolidated Financial Statements and Management's Discussion & Analysis for 2012 at www.terangagold.com.

2012 Annual Guidance Met With Record Production & Profits

- Record annual profit of $79.9 million ($0.33 per share) in 2012 up from a loss of $16.0 million ($0.07 loss per share) in 2011. Record fourth quarter profit of $48.8 million ($0.20 per share) or 106 percent higher than the same prior year period.
- Gold production for 2012 was within original guidance of 210,000 – 225,000 ounces at 214,310 ounces, a Company record and 63 percent higher than for the same 2011 period. Gold production for the three months ended December 31, 2012 was 71,804 ounces, 96 percent higher than the same prior year period.
- Total cash costs for 2012 were within guidance, of $600 - $650 per ounce, at $627[(1)] per ounce sold compared to $782 per ounce for the twelve months ended December 31, 2011, a reduction of 20 percent. Fourth quarter total cash costs were $623 per ounce sold, compared to $809 per ounce in the same prior year period, a reduction of 23 percent.
- Gold hedge book reduced to 59,789 ounces at year end and further reduced to 38,105 ounces as at January 29, 2013. Management expects the hedge book to be extinguished by June 2013.
- The Company's cash, cash equivalents and bullion receivables at December 31, 2012 increased to $45.0 million, including $5.3 million in bullion receivables.
- Gold production for 2013 is expected to be in the range of 190,000 – 210,000 ounces at total cash costs of $650 to $700 per ounce.[1]
- Gora technical study confirmed reserves of 285,000 ounces to be mined over 4-years at total cash costs of $675 to $700 ounce.
- Measured & Indicated resources increased 34 percent to 2.9 million ounces, while reserves remain similar to 2011 net of production.

"With the mill expansion complete and optimization work well underway we expect to be able to maintain an annual production profile of about 200,000 ounces from our mine licence alone. We expect Gora, the most advanced in our exploration pipeline, will be additive to this production base leveraging off of our central milling facility as we target our first phase growth of 250,000 to 350,000 ounces of annual production." said Alan R. Hill, Executive Chairman.

Financial Highlights (details on Page 4)

- Gold revenue for the twelve months ended December 31, 2012 was $350.5 million compared to gold revenue of $236.9 million for the fifteen months ended December 31, 2011. The increase in gold revenue was driven by higher gold sales and spot gold prices. Revenues exclude the impact of realized losses on ounces delivered into forward sales contracts which are classified within losses on gold hedge contracts.
- Consolidated profit for 2012 was $79.9 million ($0.33 per share) up from a loss of $16.0 million ($0.07 loss per share) during the fifteen months ended December 31, 2011. The increase in profit was primarily due to an increase in gross profit from higher revenues, lower regional exploration expenditures and lower gold hedge losses, partly offset by a non-cash impairment charge recorded in 2012, related to an available for sale financial asset.

(1) Total cash costs per ounce sold is a common financial performance measure in the gold mining industry but has no standard meaning under IFRS. For a definition of this metric, please see page 10 of this press release.

"As we eliminate the hedge book by mid-year, we anticipate that the increased cash margins and cash flows will provide us with a stronger balance sheet that should be able to fund our organic growth through our extensive exploration program, while at the same time minimizing shareholder dilution." said Richard Young, President and CEO.

- Capital expenditures for 2012, excluding reserve development expenditures, were $52.9 million, higher than the revised guidance of $50 million, and $9.2 million lower than the fifteen months ended December 31, 2011. Capitalized reserve development costs for the year were $30.4 million, higher than the revised guidance of $25 million, and $16.0 million higher than the fifteen months ended December 31, 2011. The increase over 2011 was the result of a focus on expanding resources within the Sabodala pit and converting resources to reserves.

- Total cash costs for 2012 were within guidance, of $600 - $650 per ounce, at $627 per ounce sold compared to $782 per ounce for the twelve months ended December 31, 2011, a reduction of 20 percent. The decrease in cash costs were mainly due to higher ounces produced.

- Total production costs, comprised of total cash costs including total depreciation and amortization for the year were $850 per ounce sold, down from $1,031 per ounce sold for the twelve months ended December 31, 2011.

- Realized gold price for 2012 was $1,422 per ounce sold compared to $1,236 per ounce sold for the twelve months ended December 31, 2011. The higher realized gold price for 2012 reflects a lower percentage of gold delivered into forward sales contracts due to the buyback of 52,105 ounces during the second quarter of 2012, as well as higher gold prices in 2012.

Operating Highlights (details on Page 4)

- Total tonnes mined for 2012 were 12 percent higher than the twelve months ended December 31, 2011 and 4 percent higher than planned. Ore tonnes mined were lower than plan but at better grades resulting in similar ounces mined compared to plan.

- Mill throughput for the twelve months ended December 31, 2012 was similar to the same prior year period as an increase in the milling capacity with the completion of the mill expansion in the third quarter 2012, was offset by lower throughput rates from harder ore processed in 2012 compared to the softer material that was available in 2011. Compared to budget, mill throughput for 2012 was approximately 20 percent lower than plan due to delays in commissioning the crushing circuit as part of the mill expansion.

- In the third quarter of 2012, the Company added depth to its management team to focus on growth. Alan Hill was appointed Executive Chairman, formerly Chairman and Chief Executive Officer and Richard Young was appointed President and Chief Executive Officer, formerly President and Chief Financial Officer. Mark English was also promoted to Vice President, Sabodala Operations, formerly Manager, Sabodala Gold Operations. In addition, Navin Dyal and Paul Chawrun were appointed Vice President and Chief Financial Officer and Vice President, Technical Services, respectively.

Exploration Highlights

- The Sabodala Pit optimization work completed in the first quarter of 2012, based on the high grade drill results from the fourth quarter of 2011, defined a projected pit shell that included the Lower Flat Zone ("LFZ") at depth.

- Conversion of a large portion of these resources to open pit reserves will likely require higher gold prices as the orientation of both the Main Flat Extension ("MFE") and LFZ appear to be more steeply dipping than originally anticipated, negatively affecting the economics of an enlarged pit shell.

- The 2013 drill program for Sabodala is expected to be completed in the first quarter of 2013. At that time Management will assess the economics of both a larger open pit as well as evaluate an underground development option in the LFZ.

- Drilling in 2012 successfully extended the Masato mineralized limits to the south and down dip onto Teranga's mine licence ("ML") defining approximately 700,000 ounces of Inferred Resource.

- In 2012, we drilled 104,400 metres at a cost of $26 million on the ML. The original ML budget was $20 million but was expanded during the year to follow up on positive drill results at Sabodala.

- Within the regional land package ("RLP") we completed 62,500 metres of RAB drilling, 42,300 metres of RC and 2,400 metres of diamond drilling on 25 of our anomalies and targets, at a cost of $20 million, including Gora.

- The program for 2013 has been budgeted and will focus on fast-tracking work on our current priority targets at Nienyenko, Soreto, Diabougou, Tourokhoto-Marougou and Saiensoutou. Other targets will be followed up as work progresses on the RLP. A minimum budget of $20 million is allocated for the combined exploration programs on the RLP and ML. Additional funding is available and will be allocated on a priority basis for prospects with clear potential for reserves definition.

Development Highlights

- At the Gora deposit, a combination of receipt of final assays, re-modelling and application of geo-statistics resulted in an increase in the Measured and Indicated Resource to 374,000 ounces of gold at 5.0 gpt. Technical and environmental work continued during 2012 and has progressed to initiate the permitting process in the first quarter of 2013.

- Gora is planned to be operated as a satellite to the Sabodala mine with limited local infrastructure and development. Ore will be trucked to, and processed at, our existing mill on a priority basis, displacing Sabodala feed as required.

- Mining by open pit methods will produce approximately 500,000 tonnes of ore per year for four years with a grade ranging from 2.8 gpt to 4.9 gpt, with an average mined feed grade of 4.22 gpt gold, containing 285,000 ounces(2) of gold. Metallurgical testing has revealed that Gora ore has similar properties to the Sabodala ore body and therefore blending will not impact overall gold recovery.

- The primary cost is the purchase of the mobile equipment fleet, which will be utilized as part of Teranga's long term mine plan upon completion of Gora. Additional costs include installation of the required infrastructure and project execution costs. The project capital cost is estimated to be $45 to $50 million.

- Total cash costs for Gora are estimated to average $675 to $700 per ounce sold on a life-of-mine basis. The Project economics based on the proposed operating scenario and a discount rate of 5 percent, return an after tax net present value (NPV 5 percent) of $105 million and an internal rate return (IRR) of 69 percent at an assumed gold price of $1500 per ounce.

Reserves

- Total reserves as of December 31, 2012 on the ML were 33.13 million tonnes at 1.22 gpt totalling 1.30 million ounces, a decrease of 235,000 ounces or 15 percent. Since the updated reserves reflect drill assay results through August 2012, all drill results after August 20, 2012 will be included in an updated reserve in 2013.

- As at August 20, 2012, Measured and Indicated Resources at Sabodala increased by approximately 0.7 million ounces to 2.1 million ounces, a 43 percent increase over Measured and Indicated Resources as at December 31, 2011, before production.

- Full details regarding our Reserves and Resources as of December 31, 2012 (based upon August 2012 assay results) can be found in the Reserves & Resources section of the Management Discussion and Analysis.

(2) This production target is based on proven and probable reserves only.

Review of Financial Results

(US$000's)	Twelve months ended December 2012 Current	Fifteen months ended December 2011 Restated (i)
Revenue	350,520	236,873
Cost of sales	(179,323)	(148,812)
	171,197	**88,061**
Exploration and evaluation expenditures	(16,657)	(31,659)
Administration expenses	(17,931)	(13,448)
Share based compensation	(4,694)	(12,411)
Finance costs	(7,789)	(2,946)
Losses on gold hedge contracts	(15,274)	(47,943)
Gains/(losses) on oil hedge contracts	(427)	2,203
Net foreign exchange (losses)/gains	(2,574)	4,486
Impairment of available for sale financial asset	(11,917)	-
Other income	36	848
Profit/(loss) before income tax	**93,970**	**(12,809)**
Income tax benefit	115	92
Profit/(loss) for the period	**94,085**	**(12,717)**
Profit/(loss)attributable to non-controlling interest	14,161	3,323
Profit/(loss) attributable to shareholders of Teranga	**79,924**	**(16,040)**
Basic earnings/(losses) per share	0.33	(0.07)

Review of Operational Results

		Three months ended December 31,		Twelve months ended December 31,	
		2012	2011 restated	2012	2011 restated
Operating results					
Ore mined	('000t)	2,038	1,715	5,915	3,973
Waste mined	('000t)	5,274	4,736	22,962	21,818
Total mined	('000t)	7,312	6,451	28,877	25,791
Grade mined	(g/t)	2.04	1.50	1.98	1.39
Ounces mined	(oz)	133,549	82,710	376,185	177,362
Strip ratio	waste/ore	2.6	2.8	3.9	5.5
Ore milled	('000t)	725	604	2,439	2,444
Head grade	(g/t)	3.40	2.10	3.08	1.87
Recovery rate	%	90.7	89.8	88.7	89.5
Gold produced (1)	(oz)	71,804	36,695	214,310	131,461
Gold sold	(oz)	71,604	34,665	207,814	137,136
Average price received	$/oz	1,296	1,482	1,422	1,236
Total cash cost (incl. royalties)(2)	$/oz sold	623	809	627	782
Mining (cost/t mined)		3.1	2.5	2.7	2.3
Milling (cost/t milled)		19.9	17.3	20.4	16.8
G&A (cost/t milled)		6.4	6.2	6.2	5.8

Note (1) Gold produced represents change in gold in circuit inventory plus gold recovered during the period

Note (2) Cash cost per ounce is a non-IFRS financial measure with no standard meaning under IFRS

Cost of Sales

	Twelve months ended December 31	Fifteen months ended December 31,
	2012	2011
	Current	Restated (i)
Mine production costs	145,831	126,125
Depreciation and amortization	52,660	40,077
Royalties	10,491	7,035
Rehabilitation	36	9
Inventory movements	(29,695)	(24,434)
Total cost of sales	**179,323**	**148,812**

2013 Guidance

		Year ending December 31,			
		2012	2013		
		Actuals	Guidance Range		
Operating results					
Ore mined	('000t)	5,915	4,000	-	4,500
Waste mined	('000t)	22,962	31,000	-	32,000
Total mined	('000t)	28,877	35,000	-	36,500
Grade mined	(g/t)	1.98	1.40	-	1.60
Strip ratio	waste/ore	3.9	7.00	-	7.75
Ore milled	('000t)	2,439	3,300	-	3,400
Head grade	(g/t)	3.08	2.00	-	2.15
Recovery rate	%	88.7	89.0	-	91.0
Gold produced	(oz)	214,310	190,000	-	210,000
Gold sold	(oz)	207,814	190,000	-	210,000
Total cash cost (incl. royalties)(1)(2)	$/oz sold	627	650	-	700
Total production cost(1)	$/oz sold	850	950	-	1,000
Mining (cost/t mined)		2.71	2.50	-	2.70
Milling (cost/t milled)		20.39	19.00	-	20.00
G&A (cost/t milled)		6.16	5.00	-	6.00
Mine production costs	$ millions	145.8	170.0	-	180.0
Capital Expenditures					
Mine site	$ millions	52.9	20.0	-	25.0
Capitalized reserve development	$ millions	26.1	5.0	-	10.0
Gora development costs					
Mobile equipment	$ millions	-	30.0	-	35.0
Site development	$ millions	4.3	15.0	-	20.0
Total Gora development costs	$ millions	4.3	45.0	-	50.0
Capitalized deferred stripping(2)	$ millions	N/A	35.0	-	40.0
Total Capital Expenditures	$ millions	**83.3**	**105.0**	**-**	**125.0**
Exploration (expensed)	$ millions	**16.7**	**10.0**	**-**	**15.0**
Administration expense	$ millions	**17.9**	**15.0**	**-**	**20.0**
Hedge close-outs / deliveries	(oz)	**136,395**	**59,789**		

[1]Total cash cost per ounce and total production cost per ounce are non-IFRS financial measures with no standard meaning under IFRS. For definitions of these metrics, please see page 26 of the Management Discussion and Analysis.

[2] For 2013, reflects the impact of adoption of a new IFRS standard for deferred stripping. Please see page 25 of the Management Discussion and Analysis.

TERANGA GOLD CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME / LOSS

(US$000's, except per share amounts)

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Revenue	350,520	236,873
Cost of sales	(179,323)	(148,812)
Gross profit	**171,197**	**88,061**
Exploration and evaluation expenditures	(16,657)	(31,659)
Administration expenses	(17,931)	(13,448)
Share based compensation	(4,694)	(12,411)
Finance costs	(7,789)	(2,946)
Losses on gold hedge contracts	(15,274)	(47,943)
(Losses)/gains on oil hedge contracts	(427)	2,203
Net foreign exchange (losses)/ gains	(2,574)	4,486
Impairment of available for sale financial asset	(11,917)	-
Other income	36	848
	(77,227)	**(100,870)**
Profit/(loss) before income tax	**93,970**	**(12,809)**
Income tax benefit	115	92
Profit/(loss) for the period	**94,085**	**(12,717)**
Profit/(loss) attributable to:		
Shareholders	79,924	(16,040)
Non-controlling interests	14,161	3,323
Profit/(loss) for the period	**94,085**	**(12,717)**
Other comprehensive income/(loss):		
Exchange differences arising on translation of Teranga corporate entity	(63)	(935)
Change in fair value of available for sale financial asset, net of tax	6,775	(1,319)
Other comprehensive income/(loss) for the period	**6,712**	**(2,254)**
Total comprehensive income/(loss) for the period	**100,797**	**(14,971)**
Total comprehensive income/(loss) attributable to:		
Shareholders	86,636	(18,294)
Non-controlling interests	14,161	3,323
Total comprehensive income/(loss) for the period	**100,797**	**(14,971)**
Earnings/(losses) per share from operations attributable to the shareholders of the Company during the period		
- basic earnings/(losses) per share	0.33	(0.07)
- diluted earnings/(losses) per share	0.33	(0.07)

TERANGA GOLD CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(US$000's)

	As at December 31, 2012	As at December 31, 2011
Current assets		
Cash and cash equivalents	39,722	7,470
Short-term investments	-	593
Restricted cash	-	3,004
Trade and other receivables	6,482	20,447
Inventories	82,474	48,365
Financial derivative assets	456	2,288
Other assets	12,896	12,751
Available for sale financial assets	15,010	19,800
Total current assets	**157,040**	**114,718**
Non-current assets		
Inventories	40,659	31,942
Financial derivative assets	-	532
Property, plant and equipment	241,838	238,510
Mine development expenditures	109,060	89,825
Intangible assets	1,859	1,085
Total non-current assets	**393,416**	**361,894**
Total assets	**550,456**	**476,612**
Current liabilities		
Trade and other payables	44,823	43,238
Borrowings	10,415	16,468
Financial derivative liabilities	51,548	79,241
Provisions	1,940	1,954
Total current liabilities	**108,726**	**140,901**
Non-current liabilities		
Financial derivative liabilities	-	50,318
Provisions	10,312	9,215
Borrowings	58,193	7,509
Total non-current liabilities	**68,505**	**67,042**
Total liabilities	**177,231**	**207,943**
Equity		
Issued capital	305,412	305,412
Foreign currency translation reserve	(998)	(935)
Equity-settled share based compensation reserve	16,358	12,599
Investment revaluation reserve	5,456	(1,319)
Accumulated income/(loss)	36,549	(43,375)
Equity attributable to shareholders	**362,777**	**272,382**
Non-controlling interests	10,448	(3,713)
Total equity	**373,225**	**268,669**
Total equity and liabilities	**550,456**	**476,612**

TERANGA GOLD CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(\US$000's)

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Issued capital		
At January 1, 2012 / October 1, 2010	305,412	
Shares issued on incorporation of the Company	-	-
Shares issued on the acquisition of the Sabodala gold mine and a regional exploration package	-	186,665
Shares issued from public and private offerings	-	135,005
Less: Share issue costs	-	(16,258)
At December 31	305,412	305,412
Foreign currency translation reserve		
At January 1, 2012 / October 1, 2010	(935)	-
Exchange difference arising on translation of Teranga corporate entity	(63)	(935)
At December 31	(998)	(935)
Equity-settled share based compensation reserve		
At January 1, 2012 / October 1, 2010	12,599	-
Equity-settled share based compensation reserve	3,759	12,599
At December 31	16,358	12,599
Investment revaluation reserve		
At January 1, 2012 / October 1, 2010	(1,319)	-
Impairment of available for sale financial asset	1,319	-
Change in fair value of available for sale financial asset, net of tax	5,456	(1,319)
At December 31	5,456	(1,319)
Accumulated income/(loss)		
At January 1, 2012 / October 1, 2010	(43,375)	-
Profit/(Loss) attributable to shareholders	79,924	(16,040)
Impact of change in accounting policy	-	(27,335)
At December 31	36,549	(43,375)
Non-controlling interest		
At January 1, 2012 / October 1, 2010	(3,713)	-
Non-controlling interest arising from demerger - November 23, 2010	-	(7,036)
Non-controlling interest - portion of profit for the period	14,161	3,323
At December 31	10,448	(3,713)
Total shareholders' equity at December 31	**373,225**	**268,669**

TERANGA GOLD CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW
(US$000's)

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Cash flows related to operating activities		
Profit/(loss) for the period	94,085	(12,717)
Depreciation of property, plant and equipment	41,999	29,541
Depreciation of capitalized mine development costs	11,142	10,200
Amortization of intangibles	650	490
Amortization of borrow ing costs	877	328
Unw inding of discount	53	47
Share based compensation	3,759	12,411
Net change in losses on gold hedge	(39,010)	(1,789)
Net change in losses on oil hedge	2,364	113
Buyback of gold hedge sales contracts	(39,000)	-
Income tax paid	-	(638)
Mine restoration and rehabilitation provision	-	425
Deferred income tax benefit on reversal of temporary differences	-	(231)
Impairment of available for sale financial asset	11,917	-
Profit on disposal of property, plant and equipment	(131)	-
Changes in w orking capital	(16,256)	(33,048)
Net cash provided by operating activities	**72,449**	**5,132**
Cash flows related to investing activities		
Decrease/(Increase) in restricted cash	3,004	(3,004)
Redemption of short-term investments	593	181
Expenditures for property, plant and equipment	(51,451)	(60,825)
Expenditures for mine development	(30,377)	(14,359)
Acquisition of intangibles	(1,424)	(1,208)
Proceeds on disposal of property, plant and equipment	195	-
Payment for acquisition of Sabodala gold mine and regional land package net of cash acquired	-	(34,307)
Net cash used in investing activities	**(79,460)**	**(113,522)**
Cash flows related to financing activities		
Proceeds from issuance of capital stock, net of issue costs	-	118,747
Loan facility, net of borrow ing cost paid	57,695	-
Repayment of borrow ings	(16,799)	(10,849)
Draw dow n from finance lease facility, net of financing cost paid	2,857	9,612
Interest paid on borrow ings	(4,075)	(2,248)
Net cash provided by financing activities	**39,678**	**115,262**
Effect of exchange rates on cash holdings in foreign currencies	(415)	598
Net increase in cash and cash equivalents held	**32,252**	**7,470**
Cash and cash equivalents at the beginning of financial period	**7,470**	**-**
Cash and cash equivalents at the end of financial period	**39,722**	**7,470**

CORPORATE DIRECTORY

Directors
Alan Hill, Executive Chairman
Richard Young, President and CEO
Christopher Lattanzi, Non-Executive Director
Oliver Lennox-King, Non-Executive Director
Alan Thomas, Non-Executive Director
Frank Wheatley, Non-Executive Director

Senior Management
Alan Hill, Executive Chairman
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 & Corporate Secretary
Kathy Sipos, Vice President, Investor & Stakeholder Relations
Macoumba Diop, General Manager and Government Relations Manager, SGO

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Non-IFRS Financial Measures

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

"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 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 measure of other companies.

"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.

FORWARD LOOKING STATEMENTS

Certain information included in this announcement, including any information as to the Company's strategy, projects, exploration programs, joint venture ownership positions, plans, future financial or operating performance and other statements that express management's expectations or estimates of future performance, constitute "forward-looking statements". The words "believe", "expect", "will", "intend", "anticipate", "project", "plan", "estimate", "on track" and similar expressions identify forward looking statements. Such forward-looking statements are necessarily based upon a number of estimates, assumptions, opinions and analysis made by management in light of its experience that, while considered reasonable, may turn out to be incorrect and involve known and unknown risks, uncertainties and other factors, in each case that may cause the actual financial results, performance or achievements of the Company to be materially different from the Company's estimated future results, performance or achievements expressed or implied by those forward-looking statements. Such forward-looking statements are not guarantees of future performance. These assumptions, risks, uncertainties and other factors include, but are not limited to: assumptions regarding general business and economic conditions; conditions in financial markets and the future financial performance of the company; the impact of global liquidity and credit availability on the timing of cash flows and the values of assets and liabilities based on projected future cash flows; the supply and demand for, deliveries of, and the level and volatility of the worldwide price of gold or certain other commodities (such as silver, fuel and electricity); fluctuations in currency markets, including changes in U.S. dollar and CFA Franc interest rates; risks arising from holding derivative instruments; adverse changes in our credit rating; level of indebtedness and liquidity; ability to successfully complete announced transactions and integrate acquired assets; legislative, political or economic developments in the jurisdictions in which the Company carries on business; operating or technical difficulties in connection with mining or development activities; employee relations; availability and costs associated with mining inputs and labor; the speculative nature of exploration and development, including the risks of obtaining necessary licences and permits and diminishing quantities or grades of reserves; changes in costs and estimates associated with our projects; the accuracy of our reserve estimates (including with respect to size, grade and recoverability) and the geological, operational and price assumptions on which these are based; contests over title to properties, particularly title to undeveloped properties; the risks involved in the exploration, development and mining business, as well as other risks and uncertainties which are more fully described in the Company's A.I.F. and in other Company filings with securities and regulatory authorities which are available at www.sedar.com. Accordingly, readers should not place undue reliance on such forward looking statements. Teranga expressly disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.

COMPETENT PERSONS STATEMENT

The technical information contained in this Report relating to the mineral reserve estimates within the Sabodala, Sutuba, Niakafiri and Gora deposits and the Stockpiles, is based on information compiled by Julia Martin, P.Eng., MAusIMM (CP), 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 has reviewed and accepts responsibility for the reserve estimates disclosed above. Ms Martin has consented to the inclusion in the report 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 the mineral resources is based on information compiled by Ms. Patti Nakai-Lajoie, who is a Member of the Association of Professional Geoscientists of Ontario. Ms. Patti Nakai-Lajoie is full time employee of Teranga and is not "independent" within the meaning of National Instrument 43-101. Ms. Patti Nakai-Lajoie has sufficient experience which is relevant to the style of mineralisation 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. Patti Nakai-Lajoie is a "Qualified Person" under National Instrument 43-101 Standards of Disclosure for Mineral Projects and she consents to the inclusion in the report 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 exploration results is based on information compiled by Mr. Martin Pawlitschek, who is a Member of the Australian Institute of Geoscientists. Mr. Pawlitschek is a consultant of Teranga and is not "independent" within the meaning of National Instrument 43-101. Mr. Pawlitschek has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he 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". Mr. Pawlitschek is a "Qualified Person" in accordance with NI 43-101 and he consents to the inclusion in the report of the matters based on his information in the form and context in which it appears in this Report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the twelve months ended December 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 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, 2012. The MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto ("The Audited Annual Consolidated Financial Statements") of Teranga Gold Corporation ("Teranga" or the "Company") as at and for the twelve months ended December 31, 2012. The Company's Audited Annual Consolidated Financial 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 fifteen months ended December 31, 2011, as well as all other public filings, is available on the Company's website at www.terangagold.com and on the SEDAR website (www.sedar.com). The Company's Annual Information Form for the year ended December 31, 2012 is expected to be filed in March 2013.

FORWARD LOOKING STATEMENTS

Certain information included in this management discussion and analysis, including any information as to the Company's strategy, projects, exploration programs, joint venture ownership positions, plans, future financial or operating performance and other statements that express management's expectations or estimates of future performance, constitute "forward-looking statements". The words "believe", "expect", "will", "intend", "anticipate", "project", "plan", "estimate", "on track" and similar expressions identify forward looking statements. Such forward-looking statements are necessarily based upon a number of estimates, assumptions, opinions and analysis made by management in light of its experience that, while considered reasonable, may turn out to be incorrect and involve known and unknown risks, uncertainties and other factors, in each case that may cause the actual financial results, performance or achievements of the Company to be materially different from the Company's estimated future results, performance or achievements expressed or implied by those forward-looking statements. Such forward-looking statements are not guarantees of future performance. These assumptions, risks, uncertainties and other factors include, but are not limited to: assumptions regarding general business and economic conditions; conditions in financial markets and the future financial performance of the company; the impact of global liquidity and credit availability on the timing of cash flows and the values of assets and liabilities based on projected future cash flows; the supply and demand for, deliveries of, and the level and volatility of the worldwide price of gold or certain other commodities (such as silver, fuel and electricity); fluctuations in currency markets, including changes in U.S. dollar and CFA Franc interest rates; risks arising from holding derivative instruments; adverse changes in our credit rating; level of indebtedness and liquidity; ability to successfully complete announced transactions and integrate acquired assets; legislative, political or economic developments in the jurisdictions in which the Company carries on business; operating or technical difficulties in connection with mining or development activities; employee relations; availability and costs associated with mining inputs and labour; the speculative nature of exploration and development, including the risks of obtaining necessary licenses and permits and diminishing quantities or grades of reserves; changes in costs and estimates associated with our projects; the accuracy of our reserve estimates (including with respect to size, grade and recoverability) and the geological, operational and price assumptions on which these are based; contests over title to properties, particularly title to undeveloped properties; the risks involved in the exploration, development and mining business, as well as other risks and uncertainties which are more fully described in the Company's prospectus dated November 11, 2010 and in other Company filings with securities and regulatory authorities which are available at www.sedar.com. Accordingly, readers should not place undue reliance on such forward looking statements. Teranga expressly disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.

This report is dated as of February 20, 2013. 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.

INDEX

OVERVIEW OF THE BUSINESS

Teranga is a Canadian-based gold company which operates the Sabodala gold mine and is currently exploring 10 exploration licenses covering 1,200km^2 in Senegal, comprising the regional land package, surrounding the Sabodala gold mine.[1] The Sabodala gold mine, the regional land package, and shares held in Oromin Explorations Ltd. ("Oromin) are collectively referred to as the Sabodala Gold Assets.

The Sabodala gold mine, which came into operation in 2009, is located 650 kilometres southeast of the capital of Senegal, Dakar within the West African Birimian geological belt in Senegal where approximately 10 million ounces of gold resources have been discovered over the past six years, and lies about 90 kilometres from major gold mines in Mali.

Management believes that the combination of the Sabodala gold mine and mill and its regional land package, all within trucking distance to the Sabodala mill, provides the basis for growth in reserves and production, resulting in growth in earnings and cash flow per share as new discoveries are made and processed through the Sabodala mill.

Our Mission is to share the benefits with all of our stakeholders through responsible mining. We strive to act as a responsible corporate citizen by building projects together with the communities near our planned operations and by committing to using best available technologies 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 preeminent gold producer in West Africa while setting the benchmark for responsible mining.

Phase 1: Become a mid-tier 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 via a mill expansion as gold inventories increase.

Demerger from Mineral Deposits Limited (MDL) ("Demerger")

On November 23, 2010, Teranga completed the acquisition of the Sabodala gold mine and a regional exploration package by way of a demerger from MDL. As part of the demerger certain assets consisting of all of the issued and outstanding shares of Sabodala Gold (Mauritius) Limited, which holds a 90 percent interest in Sabodala Gold Operations SA ("SGO"), the holder of the Sabodala gold mine, and a 100 percent interest in Sabodala Mining Company SARL ("SMC"), an exploration entity which holds the regional land package; all of the issued and outstanding shares of SGML (Capital) Limited; and 18,699,500 common shares of Oromin Exploration Ltd., originally held by MDL, were transferred to Teranga in consideration for the issuance of 200,000,000 common shares of Teranga to MDL (approximately 160,000,000 of such common shares were then in specie distributed to MDL's shareholders with the remainder retained by MDL) and the assumption of a C$50 million promissory note owing to MDL. Following the completion of the Demerger, the C$50 million promissory note owing to MDL was repaid by Teranga from proceeds of the Initial Public Offering ("IPO").

Basis of Preparation

The transfer of the Sabodala Gold Assets into the Company is considered a transaction between entities under common control. As such, the Company has presented its financial results on a continuity-of-interests basis whereby the carrying amounts of the Sabodala Gold Assets reflect those previously reported in the financial statements of MDL. Accordingly, the consolidated statement of comprehensive loss for the fifteen months ended December 31, 2011 reflects the corporate activities since incorporation of Teranga on October 1, 2010 and the operations of SGO from November 23, 2010. The production statistics in this MD&A reflect operating results for the 2012 and 2011 calendar years.

[1] The Company's 11th exploration permit, Sabodala North West, was not renewed by the Government in June 2012. The Company has since appealed this decision and is awaiting a response from the Government.

FINANCIAL AND OPERATING HIGHLIGHTS

2012 FOURTH QUARTER AND YEAR END RESULTS

(US$000's, except where indicated)	Three months ended December 31,		Twelve months ended December 31,	Fifteen months ended December 31,
	2012	2011	2012	2011
Financial Data	**Current**	**Restated (i)**	**Current**	**Restated (i)**
Revenue	122,970	58,026	350,520	236,873
Profit/(loss) attributable to shareholders of Teranga	48,781	23,722	79,924	(16,040)
$ per share	0.20	0.10	0.33	(0.07)
Operating cash flow	56,401	7,466	72,447	5,132
Capital expenditures	25,252	27,300	83,250	76,392
Free cash flow [1]	31,149	(19,834)	(10,803)	(71,260)
Cash and cash equivalents	39,722	7,470	39,722	7,470
Net debt[2]	80,434	95,748	80,434	95,748

	Three months ended December 31,		Twelve months ended December 31,	
Operating Data	2012	2011	2012	2011
Gold Produced (000s ounces)	71,804	36,695	214,310	131,461
Gold Sold (000s ounces)	71,604	34,665	207,814	137,136
Average realized price ($ per ounce)	1,296	1,482	1,422	1,236
Total cash costs ($ per ounce sold)[3]	623	809	627	782
Total depreciation and amortization ($ per ounce sold)[3]	246	235	223	249
Total production costs ($ per ounce sold)[3]	869	1,044	850	1,031

Note (i) The Company adopted changes to certain accounting policies effective January 1, 2012 that have been retrospectively applied to the three and fifteen months ended December 31, 2011. See "Consolidated Financial Statements for the Year Ended December 31, 2012 - Change in Accounting Policies"

[1] Free cash flow is defined as operating cash flow less capital expenditures

[2] Net debt is defined as total borrowings and total financial derivative liabilities less cash and cash equivalents

[3] Total cash costs per ounce, total depreciation and amortization per ounce and total production cost per ounce are non-IFRS financial measures with standard meaning under IFRS. For definitions of these metrics, please see page 25 of this report.

Fourth Quarter Financial and Operating Highlights

- Gold revenue for the three months ended December 31, 2012 was $123.0 million compared to $58.0 million in the same prior year period. The increase in gold revenue was mainly driven by higher gold sales. Revenues exclude the impact of realized losses on ounces delivered into forward sales contracts which are classified within losses on gold hedge contracts.

- Consolidated profit for the three months ended December 31, 2012 was $48.8 million ($0.20 per share), or 106 percent higher than the same prior year period. The increase in profit and earnings per share were primarily due to an increase in gross profit from a 112 percent increase in revenues.

- Operating cash flow for the three months ended December 31, 2012 was $56.4 million, an increase of $48.9 million over the same prior year period. Operating cash flow in the fourth quarter 2012 was positively impacted by higher gold sales.

- Capital expenditures were $25.3 million for the three months ended December 31, 2012, $2.0 million lower than the same prior year period mainly due to higher expenditures in 2011 related to the mill expansion which was commissioned in third quarter 2012 partially offset by higher reserve development expenditures in 2012.

- Gold production for the three months ended December 31, 2012 was 71,804 ounces, 96 percent higher than the same prior year period due to the processing of higher grade ore combined with higher mill throughput as a result of the completion of the mill expansion.

- Gold sold for the three months ended December 31, 2012 totalled 71,604 ounces compared to 34,665 ounces sold in the same prior year period, an increase of 107 percent. Ounces sold during the fourth quarter of 2012 were in line with production for the period. At December 31, 2012, gold in circuit and gold bullion inventory amounted to 13,221 ounces.

- Total cash costs for the three months ended December 31, 2012 were $623 per ounce sold compared to $809 per ounce in the same prior year period, a reduction of 23 percent. The decrease in total cash costs per ounce was mainly due to higher gold ounces produced, partially offset by higher mining and processing costs.

- Total production costs per ounce, comprised of total cash costs and depreciation and amortization, were $869 per ounce in the fourth quarter 2012 compared to $1,044 per ounce in the same prior year period.

- During the fourth quarter 2012, the average realized gold price was $1,296 per ounce with 33,606 ounces delivered into gold hedge contracts at an average price of $833 per ounce and 37,998 ounces sold at an average spot price of $1,705 per ounce. During the same prior year period, the average realized gold price was $1,482 per ounce with 7,385 ounces delivered into gold hedge contracts at $846 per ounce and 27,280 ounces sold into the spot market at an average spot price of $1,654 per ounce.

- The gold forward sales contracts declined during the fourth quarter 2012 to 59,789 ounces at December 31, 2012. Forward sales contracts have declined by an additional 21,684 ounces to 38,105 ounces at January 29, 2013 and are scheduled to be fully extinguished by June 2013. In total, forward sales contracts outstanding have declined by 136,395 ounces since December 31, 2011.

Full Year Financial and Operating Highlights

- Gold revenue for the twelve months ended December 31, 2012 was $350.5 million compared to gold revenue of $236.9 million for the fifteen months ended December 2011. The increase in gold revenue was driven by higher gold sales and spot gold prices. Revenues exclude the impact of realized losses on ounces delivered into forward sales contracts which are classified within losses on gold hedge contracts.

- Consolidated profit for 2012 was $79.9 million ($0.33 per share) up from a loss of $16.0 million ($0.07 loss per share) during the fifteen months ended December 31, 2011. The increase in profit was primarily due to an increase in gross profit from higher revenues, lower regional exploration expenditures and lower gold hedge losses, partly offset by a non-cash impairment charge recorded in 2012, related to an available for sale financial asset.

- Operating cash flow for the twelve months ended December 31, 2012 was $72.4 million compared to $5.1 million during the fifteen months ended December 31, 2011. Operating cash flows in 2012 benefitted from an increase in gross profit and lower regional exploration expenditures.

- Capital expenditures for 2012, excluding reserve development expenditures, were $52.9 million, higher than the revised guidance of $50 million, and $9.2 million lower than the fifteen months ended December 31, 2011. Capitalized reserve development costs for the year were $30.4 million, higher than the revised guidance of $25 million, and $16.0 million higher than the fifteen months ended December 31, 2011. The increase over 2011 was the result of a focus on expanding resources within the Sabodala pit and converting resources to reserves.

- Gold production for the year was within guidance, of 210,000 – 225,000 ounces, at 214,310 ounces, 63 percent higher than the twelve months ended December 31, 2011 due to higher grade ore processed.

- Gold sold for the year was 207,814 ounces, an increase of 52 percent over the twelve months ended December 31, 2011. Ounces sold during 2012 were lower than produced due to an increase in gold in circuit and gold bullion inventory of 6,496 ounces to 13,221 ounces.

- Total cash costs for 2012 were within guidance, of $600 - $650 per ounce, at $627 per ounce sold compared to $782 per ounce for the twelve months ended December 31, 2011, a reduction of 20 percent. The decrease in cash costs was mainly due to higher ounces produced.

- Total production costs, comprised of total cash costs and total depreciation and amortization, for the year were $850 per ounce sold, down from $1,031 per ounce sold for the twelve months ended December 31, 2011.

- Realized gold price for 2012 was $1,422 per ounce sold compared to $1,236 per ounce sold for the twelve months ended December 31, 2011. The higher realized gold price for 2012 reflects a lower percentage of gold delivered into forward sales contracts due to the buyback of 52,105 ounces during the second quarter of 2012, as well as higher gold prices in 2012.

Outlook 2013

		Year ending December 31,			
		2012 Actuals	2013 Guidance Range		
Operating results					
Ore mined	('000t)	5,915	4,000	-	4,500
Waste mined	('000t)	22,962	31,000	-	32,000
Total mined	('000t)	28,877	35,000	-	36,500
Grade mined	(g/t)	1.98	1.40	-	1.60
Strip ratio	waste/ore	3.9	7.00	-	7.75
Ore milled	('000t)	2,439	3,300	-	3,400
Head grade	(g/t)	3.08	2.00	-	2.15
Recovery rate	%	88.7	89.0	-	91.0
Gold produced	(oz)	214,310	190,000	-	210,000
Gold sold	(oz)	207,814	190,000	-	210,000
Total cash cost (incl. royalties)(1)(2)	$/oz sold	627	650	-	700
Total production cost(1)	$/oz sold	850	950	-	1,000
Mining (cost/t mined)		2.71	2.50	-	2.70
Milling (cost/t milled)		20.39	19.00	-	20.00
G&A (cost/t milled)		6.16	5.00	-	6.00
Mine production costs	$ millions	145.8	170.0	-	180.0
Capital Expenditures					
Mine site	$ millions	52.9	20.0	-	25.0
Capitalized reserve development	$ millions	26.1	5.0	-	10.0
Gora development costs					
Mobile equipment	$ millions	-	30.0	-	35.0
Site development	$ millions	4.3	15.0	-	20.0
Total Gora development costs	$ millions	4.3	45.0	-	50.0
Capitalized deferred stripping(2)	$ millions	N/A	35.0	-	40.0
Total Capital Expenditures	$ millions	**83.3**	**105.0**	**-**	**125.0**
Exploration (expensed)	$ millions	**16.7**	**10.0**	**-**	**15.0**
Administration expense	$ millions	**17.9**	**15.0**	**-**	**20.0**
Hedge close-outs / deliveries	(oz)	**136,395**	**59,789**		

[1] Total cash cost per ounce and total production cost per ounce are non-IFRS financial measures with no standard meaning under IFRS. For definitions of these metrics, please see page 26 of this report

[2] For 2013, reflects the impact of adoption of a new IFRS standard for deferred stripping. Please see page 25 of this report.

Material assumptions

Material assumptions or factors used to forecast production and costs include:

- Gold price: $1,600 per ounce
- Exchange rates:
  - $1.05USD: $1AUD
  - $1USD: 0.002West African Franc (XOF)
  - $1.30USD: €1.00
- Fuel prices:
  - Light fuel oil: $1.10/litre
  - Heavy fuel oil: $1.05/litre

Other important assumptions include the following: 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; no unplanned delays in or interruption of scheduled production from Sabodala mine; and availability of mining equipment due to overruns on scheduled major component replacements planned for the year.

TERANGA GOLD CORPORATION

Sensitivity

	2013 Assumption	Hypothetical Change	Impact on total cash costs	Impact on profit
Gold Revenue	$1,600/oz	$100/oz	n/a	$20M
Gold Total cash costs				
Gold Price Effect on Royalties[1]	$1,600/oz	$100/oz	$3/oz	$0.6M
Brent Crude Oil Price	$100/bbl	$10/bbl	$27/oz	$4.8M
EUR exchange rate	1.3:1	10%	$47/oz	$9.7M

[1] Assumes a 3% royalty payable to the Senegalese government

REVIEW OF FINANCIAL RESULTS

(US$000's)	Twelve months ended December	Fifteen months ended December
	2012	2011
	Current	Restated (i)
Revenue	350,520	236,873
Cost of sales	(179,323)	(148,812)
	171,197	**88,061**
Exploration and evaluation expenditures	(16,657)	(31,659)
Administration expenses	(17,931)	(13,448)
Share based compensation	(4,694)	(12,411)
Finance costs	(7,789)	(2,946)
Losses on gold hedge contracts	(15,274)	(47,943)
Gains/(losses) on oil hedge contracts	(427)	2,203
Net foreign exchange (losses)/gains	(2,574)	4,486
Impairment of available for sale financial asset	(11,917)	-
Other income	36	848
Profit/(loss) before income tax	**93,970**	**(12,809)**
Income tax benefit	115	92
Profit/(loss) for the period	**94,085**	**(12,717)**
Profit/(loss)attributable to non-controlling interest	14,161	3,323
Profit/(loss) attributable to shareholders of Teranga	**79,924**	**(16,040)**
Basic earnings/(losses) per share	0.33	(0.07)

Revenue

Gold revenue for the twelve months ended December 31, 2012 was $350.5 million compared to gold revenue of $236.9 million for the fifteen months ended December 31, 2011. The increase in gold revenue was driven by higher gold sales and spot gold prices. Revenues exclude the impact of realized losses on ounces delivered into forward sales contracts which are classified within losses on gold hedge contracts.

Cost of Sales

(US$000s)	Twelve months ended December 31 2012 Current	Fifteen months ended December 31, 2011 Restated (i)
Mine production costs	145,831	126,125
Depreciation and amortization	52,660	40,077
Royalties	10,491	7,035
Rehabilitation	36	9
Inventory movements	(29,695)	(24,434)
Total cost of sales	**179,323**	**148,812**

Cost of sales for 2012 totalled $179.3 million and consists of mine production costs, depreciation and amortization, royalties, rehabilitation costs and inventory movement costs. This compares with cost of sales for the fifteen months ended 2011 of $148.8 million.

Mine production costs for 2012 totalled $145.8 million compared with $126.1 million for the fifteen months ended December 31, 2011. Higher mine production costs were due to higher mining and processing activity. Total mine site cash production costs for 2013 are expected to rise by between $30 and $35 million compared to 2012 due to an increase in mining (up 24 percent) and processing (up 37 percent) rates as detailed in the Review of Operating Results section of this report. However, reported total cash costs for 2013 are expected to rise marginally to between $650 and $700 per ounce sold due to the adoption of a new accounting standard for deferred stripping (IFRIC 20) that results in approximately $75 to $100 per ounce being capitalized to deferred stripping net of inventory movement costs.

Depreciation and amortization for the year totalled $52.7 million compared with $40.1 million for the fifteen months ended December 31 2011. On a gross cost basis, depreciation was higher in 2012 due to higher gold sales as many of the Company's fixed assets are depreciated using the units of production method of depreciation. In addition, depreciation was higher in fourth quarter 2012 with the commissioning of the plant expansion in third quarter 2012. Depreciation and amortization expense for 2013 are expected to increase to between $65 and $70 million due to the additional mobile equipment and added depreciation associated with the mill expansion and deferred stripping.

Royalties for the year totalled $10.5 million, $3.5 million higher than the fifteen months ended December 31, 2011, mainly due to higher gold sales. Royalties are calculated based on 3 percent of the average spot price of gold for the period rather than the average price realized by the Company.

Inventory movements for 2012 resulted in a reduction to cost of sales of $29.7 million compared to $24.4 million for the 15 months ended December 31, 2011, mainly due to higher ounces mined than processed. During 2012, the Company mined 376,185 ounces compared to 214,310 ounces produced.

Exploration and Evaluation

Exploration and evaluation expenditures for 2012 totalled $16.7 million, $15.0 million lower than the fifteen months ended December 31, 2011, reflecting regional exploration costs incurred during the year related to drill programs as well as target identification work. The higher costs in 2011 reflect reserve definition drilling at the Gora deposit completed in early 2012. Exploration and evaluation expenditures were lower than the plan of $20 million as Management refocused its efforts on the expansion and conversion of resources to reserves within the Mine License in fourth quarter 2012. Exploration expenses for 2013 are expected to decrease compared to 2012. The largest cost item continues to be drilling which includes diamond (DD), reverse circulation (RC), and rotary air blasting (RAB). The plans for the regional exploration program are outlined below in "Strategy and Market Review". If a discovery is made, exploration expenditures may rise above the planned amount.

Administration

Administration expenses for 2012, which includes costs of the corporate and Dakar offices as well as community and social responsibility costs ("CSR"), were $17.9 million, $4.5 million higher than the fifteen months ended December 31, 2011. The higher costs in 2012 reflect the buildup of the corporate office, higher legal costs and ongoing CSR activities. In 2013, the Company expects to maintain similar levels of expenditure, with the majority of the costs being budgeted for the Toronto and Dakar offices, relating to employee costs which will include the new Technical Services department, legal and accounting, while the remainder is allocated for corporate social responsibility costs.

Share based compensation

During 2012, a total of 3,580,000 common share stock options were granted to directors, officers, employees and consultants, all at an exercise price of $3.00, and 4,058,055 common share stock options were cancelled. No stock options were exercised during the twelve month period ended December 31, 2012. The estimated fair value of stock options is amortized over the period in which the options vest which is normally three years, however under IFRS the accelerated method of amortization is applied to stock based compensation which results in about 70 percent of the cost of the stock options being expensed in the first year of grant, 25 percent in the second year and 5 percent in the third year. For those options which vest on single or multiple dates, either upon issuance or upon meeting milestones (the "measurement date"), the entire fair value of the vesting options is recognized immediately on the measurement date.

Of the 17,139,167 common share stock options issued and outstanding as at December 31, 2012, 16,964,167 vest over a three-year period 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..

Management continuously refines employee compensation packages to ensure that the Company is able to hire and retain the best employees available. In the third quarter 2012, the Company introduced a new Fixed Bonus Plan to further augment the Company's compensation package to provide improved compensation flexibility to be able to hire and retain the best employees. The Fixed Bonus Plan Units issued under this plan are not convertible into Company stock and are simply redeemed by way of cash payment by the Company.

During 2012, a total of 1,440,000 Fixed Bonus Plan Units, at an exercise price of $3.00 per unit, were granted to employees. No Fixed Bonus Plan Units were forfeited or exercised during the period. Fixed Bonus Plan Units granted are fair valued at the end of each reporting period using the Black-Scholes option pricing model.

Finance Costs

Finance costs for 2012 of $7.8 million reflect interest costs related to the outstanding bank and mobile equipment loans, amortization of capitalized borrowing costs, political risk insurance relating to the project finance facility and bank charges. Finance costs were higher than the fifteen months ended December 31, 2011 due to higher debt balances and higher interest costs on borrowings. Finance costs for 2013 are expected to be comparable to 2012.

Gold Hedge Contracts

The loss on gold hedge contracts totalled $15.3 million for the twelve months ended December 31, 2012 resulted from an increase in the spot price of gold from December 31, 2011 by $108 per ounce of gold. The total mark-to-market loss of the remaining 59,789 ounces of gold under gold hedge contracts recorded as a financial derivative liability decreased to $51.5 million due to the reduction in forward sales contracts outstanding by 114,711 ounces during 2012. The average forward price of the remaining contracts of $803 per ounce is marked to the year end spot price of $1,664 per ounce. If deliveries are not accelerated, the forward sales contracts are expected to be extinguished by June 2013.

The hedge contracts were required as part of the project finance facility with Macquarie Bank Limited (the "Project Finance Facility") that was put in place to construct the Sabodala Mine. The Project Finance Facility was initially repaid on September 30, 2010, however the gold hedge contracts still remained in place. In the second quarter 2012, proceeds of $60 million were received from Macquarie Bank Limited by way of an amendment to the existing Project Finance Facility, a portion of which was used to settle 52,105 ounces of hedge contracts scheduled for delivery in 2012. This loan is repayable on or before June 30, 2014. The obligations under the hedge contracts are expected to be extinguished by June 2013 or earlier if the Company chooses to accelerate deliveries.

Oil Hedge Contracts

The loss on oil hedge contracts totalled $0.4 million for 2012 resulted from a decrease of $7 per barrel over the December 31, 2011 spot price of oil. The overall mark-to-market of the remaining barrels of fuel oil outstanding at a hedge price of $70 per barrel decreased due to the delivery of 80,000 barrels during 2012, reducing the number of barrels outstanding at year end to 20,000 barrels. The financial derivative asset of the remaining 20,000 barrels, totalled $0.5 million at December 31, 2012 at a spot price of $92 per barrel.

The Company's oil hedge contracts are based on the West Texas Intermediate spot oil price, however site fuel costs are based on the Brent crude spot oil price. Our oil hedges were less effective throughout 2012 because of a difference between the two exchanges. The Company may consider entering into new oil hedge contracts, if Management deems the terms appropriate to reduce exposure to crude oil price volatility.

Net Foreign Exchange Gains and Losses

The Company generated foreign exchange losses of $2.6 million for the twelve months ended December 31, 2012 primarily related to realized losses from the Sabodala gold mine operating costs recorded in the local currency and translated into the US dollar functional currency.

Impairment of Available for Sale Financial Asset

As of June 30, 2012 Oromin's share price traded 56 percent lower than the share price at the date of acquisition and 52 percent lower than at the beginning of the year. As a result of the continuous decline in the share price, the Company recognized a non cash impairment loss of $11.9 million on the Oromin shares during the second quarter 2012.

REVIEW OF OPERATING RESULTS

		Three months ended December 31,		Twelve months ended December 31,	
		2012	2011	2012	2011
			restated		restated
Operating results					
Ore mined	('000t)	2,038	1,715	5,915	3,973
Waste mined	('000t)	5,274	4,736	22,962	21,818
Total mined	('000t)	7,312	6,451	28,877	25,791
Grade mined	(g/t)	2.04	1.50	1.98	1.39
Ounces mined	(oz)	133,549	82,710	376,185	177,362
Strip ratio	waste/ore	2.6	2.8	3.9	5.5
Ore milled	('000t)	725	604	2,439	2,444
Head grade	(g/t)	3.40	2.10	3.08	1.87
Recovery rate	%	90.7	89.8	88.7	89.5
Gold produced (1)	(oz)	71,804	36,695	214,310	131,461
Gold sold	(oz)	71,604	34,665	207,814	137,136
Average price received	$/oz	1,296	1,482	1,422	1,236
Total cash cost (incl. royalties)(2)	$/oz sold	623	809	627	782
Mining (cost/t mined)		3.1	2.5	2.7	2.3
Milling (cost/t milled)		19.9	17.3	20.4	16.8
G&A (cost/t milled)		6.4	6.2	6.2	5.8

Note (1) Gold produced represents change in gold in circuit inventory plus gold recovered during the period

Note (2) Cash cost per ounce is a non-IFRS financial measure with no standard meaning under IFRS

Total tonnes mined for the three months ended December 31, 2012 were 13 percent higher compared to the same prior year period due to increased fleet capacity and improved productivity in the mining operation.

Total tonnes mined for 2012 were 12 percent higher than the twelve months ended December 31, 2011 and 4 percent higher than planned. Ore tonnes mined were lower than plan but at better grades resulting in similar ounces mined compared to plan. In estimating 2011 year end reserves, Management lowered the capping level on high grade intersections, resulting in an underestimation of grade in this area of the ore body. In addition, better dilution control in the pit led to better grades mined than plan. Drilling and loading availabilities in 2012 benefited from the addition of three new blast hole drill rigs, four new haul trucks, and the implementation of better maintenance practices, resulting in improved loading and hauling efficiencies from improved availability of the mobile equipment fleet.

Ore tonnes mined in 2013 will primarily come from mining of Phases 2 and 3 of the Sabodala pit. Mining rates are expected to increase in 2013 with the addition of five new haul trucks and one shovel. Two of the new haul trucks arrived in late 2012 and were commissioned in early January 2013, while the balance of three trucks and the shovel are expected to be commissioned in the second quarter of 2013. The additional mobile equipment is expected to maintain a 200,000 ounce production level from the Sabodala Mine License.

Unit mining costs for 2012 were higher than plan and higher compared to the prior year periods mainly due to higher fuel consumption from longer haul distances and higher costs for blasting consumables. Unit mining costs for 2013 are expected to be comparable to 2012. Higher consumption of blasting consumables enabling better fragmentation for processing is expected to be offset by shorter hauling distances from mining in Phases 3 which is at a higher elevation in the Sabodala pit.

Gross mining costs are expected to increase with the additional mobile equipment expected to be commissioned in the first and second quarters of 2013 to facilitate higher mining rates. During the third and fourth quarters of 2012, the Company experienced delays in the delivery of tires which negatively impacted waste stripping activities in Phase 3 of the Sabodala pit. The Company has since entered into negotiations with new tire suppliers to mitigate any further supply disruptions. Management believes that the addition of new suppliers should ensure that mining activities in 2013 are not impacted, however tire costs are increasing.

Ore tonnes milled for the three months ended December 31, 2012 were 20 percent higher than the same prior year period mainly due to an increase in mill capacity as a result of the completion of the mill expansion. Mill throughput for the fourth quarter was lower than plan due to the ramp up and optimization of the new crushing circuit which was part of the mill expansion, as well as higher than expected wear rates in transfer chutes and feeders in the crushing circuit. The majority of these issues were rectified during a comprehensive planned shutdown in January 2013.

Mill throughput for the twelve months ended December 31, 2012 was similar to the same prior year period, as an increase in the milling capacity with the completion of the mill expansion in the third quarter 2012, was offset by lower throughput rates from harder ore processed in 2012 compared to the softer material that was available in 2011.

Compared to budget, mill throughput for 2012 was approximately 20 percent lower than plan due to delays in commissioning the crushing circuit as part of the mill expansion. Transfer chute design upgrades and the addition of more durable liners in the high wear points through the plant are planned for 2013. These changes are anticipated to help reduce the frequency and duration of unplanned downtime allowing the design targets to be achieved.

Unit processing costs for the twelve month period ended December 31, 2012 were 21 percent higher than the same prior year period due to processing of harder ore which led to higher consumption of heavy fuel oil ("HFO") used for power generation, higher costs and consumption of grinding media, and higher costs for reagents, partly offset by lower HFO prices. Unit processing costs in 2013 are expected to decrease slightly to between $19 and $20 per tonne benefiting from the expansion of the mill, but will also be negatively impacted by higher consumption of reagents and grinding media due to harder ore milled.

Unit general and administration costs for 2012 are comparable to the same prior year period. Unit general and administrative costs in 2013 are expected to decline with higher tonnes processed.

Gold production for the year was within guidance, of 210,000 – 225,000 ounces, at 214,310 ounces, 63 percent higher than the twelve months ended December 31, 2011 due to higher grade ore processed. The mined grade in 2012 was 1.98 gpt compared to 1.39 gpt in the same prior year period, while processed grade in 2012 was 3.08 gpt versus 1.87 gpt during the twelve months ended 2011. As with any open pit operation, the mining rate exceeds the processing rate to ensure adequate ore feed at all times. As a result, the highest grade material is processed and the lower grade material is stockpiled for processing later in the mine life. Gold production for 2013 is expected to total between 190,000 to 210,000 ounces.[5] Higher throughput from the expansion of the mill during 2012 is expected to partially offset lower grades processed in 2013. Teranga has stated objectives of reaching mid-tier producer status in the near term with annual gold production of 250,000 to 350,000 ounces and establishing a 200,000 ounce annual production base at Sabodala is crucial in this growth strategy.[6]

During the year, 62,606 ounces were delivered into forward sales contracts at an average price of $832 per ounce, representing 30 percent of gold sales for the year. 145,208 ounces of gold were sold into the spot market at an average price of $1,677 per ounce resulting in an average realized price for the year of $1,422 per ounce. During the same prior year period, 137,136 ounces were sold at an average realized price of $1,236 per ounce with 61,000 ounces delivered into forward sales contracts at $846 per ounce representing 44 percent of gold sales for the period and 76,136 ounces sold at an average spot price of $1,548 per ounce. The lower percentage of gold sales into forward

[5] This production target is based on proven and probable reserves only
[6] This production target is based on proven and probable reserves only

sales contracts in 2012 was due to the buyback of 52,105 ounces of forward sales contracts due for delivery in 2012 as part of a $60 million two-year Loan Facility with Macquarie Bank Limited. As of December 31, 2012, 59,789 ounces remain to be delivered into forward sales contracts at an average price of $803 per ounce.

Total cash costs for the three months ended December 31, 2012 were $44.6 million compared to $28.0 million in the same prior year period. Total cash costs for the three months ended December 31, 2012 were $623 per ounce sold compared to $809 per ounce in the same prior year period, a reduction of 23 percent. The decrease in total cash costs per ounce was mainly due to higher gold ounces sold, partially offset by higher mining and processing costs.

Total cash costs for the twelve months ended December 31, 2012 were $130.3 million or 22 percent higher than the same prior year period due to higher mine production costs and higher royalties. On a per ounce sold basis for the fiscal year total cash costs were in line with guidance at $627 per ounce sold compared to $782 per ounce for the twelve months ended December 31, 2011. This reduction of 22 percent was mainly due to higher processed grades. Beginning in 2013, the Company will report cash costs, adjusted for the adoption of a new mandatory IFRS standard (IFRIC 20) for capitalization of a portion of production phase stripping costs when certain benefits accrue to the Company from the stripping activity. Total mine site cash production costs for 2013 are expected to rise by between $30 and $35 million compared to 2012 due to an increase in mining (up 24 percent) and processing (up 37 percent) rates. However, reported total cash costs for 2013 are expected to rise marginally to between $650 and $700 per ounce sold mainly due to lower ore grades, mitigated by the adoption of IFRIC 20 that result in approximately $75 to $100 per ounce being capitalized to deferred stripping net of inventory movement costs.

Total production cost per ounce, including total cash costs and depreciation and amortization, were $850 per ounce sold compared to $1,031 per ounce for the twelve months ended December 31, 2011, a reduction of 18 percent primarily due to higher gold sales.

RESERVES AND RESOURCES

The proven and probable mineral reserves for the Sabodala and Niakafiri deposits were based on the Measured and Indicated resources that fall within the designed pits. The bases for the reserves are consistent with the Canadian Securities Administrators National Instrument 43-101 ("NI 43-101") report. The design for the open pit limits, related phasing and long term planning for the Sabodala open pit were updated from assay and drilling results as at August 20, 2012. Updated resource block models were completed for Sabodala and Gora deposits.

The updated Sabodala pit design is larger than the 2011 design. The new design uses similar geotechnical parameters as in past designs and uses a slightly higher gold price for the Lerchs-Grossman (LG) pit optimization routine to reflect the three year trailing average gold price. Mining phases were designed similarly to the previous designs, where the mine sequencing is based on accessing the high grade MFE through successive phases to balance waste stripping and optimize cash flow.

The updated Gora pit design and reserve estimate was based on the LG pit optimizer and geotechnical pit wall assumptions similar to the Sabodala pit, however, a higher cut-off was used to reflect the ore haul to Sabodala. Dilution and ore recovery estimates were based on an estimated minimum mine width of 4 metres with separability optimized for 5 metre benches in ore and 10 metres benches in waste.

The Niakafiri pit design remains unchanged from 2011.

The total proven and probable mineral reserves at December 31, 2012 are set forth in Table 2 below, and are based on a $1,500 gold price.

Table 1: Resources Estimate

	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	28.06	1.24	1.12	31.47	0.96	0.97	59.53	1.09	2.09
Sutuba	-	-	-	0.50	1.27	0.02	0.50	1.27	0.02
Niakafiri	0.30	1.74	0.02	10.50	1.10	0.37	10.70	1.12	0.39
Gora	0.49	5.27	0.08	1.84	4.93	0.29	2.32	5.00	0.37
Total	**28.85**	**1.32**	**1.22**	**44.31**	**1.16**	**1.65**	**73.05**	**1.22**	**2.87**

Area	Inferred		
	Tonnes (Mt)	Grade (g/t)	Au (Moz)
Sabodala	12.36	0.87	0.35
Niakafiri	7.20	0.88	0.21
Niakafiri West	7.10	0.82	0.19
Soukhoto	0.60	1.32	0.02
Gora	0.21	3.38	0.02
Diadiako	2.90	1.27	0.12
Majiva	2.60	0.64	0.05
Masato	19.18	1.15	0.71
Total	**52.15**	**1.00**	**1.67**

Table 2: Reserves Estimate

Deposit	Proven			Probable			Proven and Probable		
	Tonnes (Mt)	Grade (g/t)	Au (Moz)	Tonnes (Mt)	Grade (g/t)	Au (Moz)	Tonnes (Mt)	Grade (g/t)	Au (Moz)
Sabodala	6.55	1.5	0.315	11.07	1.24	0.443	17.62	1.34	0.758
Sutuba	-	-	-	0.37	1.40	0.017	0.37	1.40	0.017
Niakafiri	0.23	1.69	0.013	7.58	1.12	0.274	7.81	1.14	0.287
Gora	0.57	4.07	0.074	1.53	4.27	0.21	2.1	4.22	0.284
Stockpiles	7.32	1.02	0.24	-	-	-	7.32	1.02	0.24
Total	**14.67**	**1.36**	**0.642**	**20.56**	**1.43**	**0.944**	**35.23**	**1.40**	**1.586**

Notes:

1) CIM definitions were used for Mineral Reserves.

2) Mineral Reserve cut off grades for Niakafiri are 0.35 g/t Au for oxide and 0.50 g/t Au for fresh.

3) Mineral Reserve cut off grade for Sabodala, Sutuba and Gora is 0.50 g/t Au.

4) Gold price of USD 1,500 per ounce used.

5) Proven include stockpiles which total 7.32 Mt at 1.02 g/t Au for 0.24 Mozs.

6) Sum of individual amounts may not equal the total due to rounding.

The technical information contained in this Report relating to the mineral reserve estimates within the Sabodala, Sutuba, Niakafiri and Gora deposits and the Stockpiles, is based on information compiled by Julia Martin, P.Eng., MAusIMM (CP), 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 has reviewed and accepts responsibility for the reserve estimates disclosed above. Ms Martin has consented to the inclusion in the report 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 the mineral resources is based on information compiled by Ms. Patti Nakai-Lajoie, who is a Member of the Association of Professional Geoscientists of Ontario. Ms. Patti Nakai-Lajoie is full time employee of Teranga and is not "independent" within the meaning of National Instrument 43-101. Ms. Patti Nakai-Lajoie has sufficient experience which is relevant to the style of mineralisation 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. Patti Nakai-Lajoie is a "Qualified Person" under National Instrument 43-101 Standards of Disclosure for Mineral Projects.and she consents to the inclusion in the report 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 exploration results is based on information compiled by Mr. Martin Pawlitschek, who is a Member of the Australian Institute of Geoscientists. Mr. Pawlitschek is a consultant of Teranga and is not "independent" within the meaning of National Instrument 43-101. Mr. Pawlitschek has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he 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". Mr. Pawlitschek is a "Qualified Person" in accordance with NI 43-101 and he consents to the inclusion in the report of the matters based on his information in the form and context in which it appears in this Report.

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STRATEGY AND MARKET REVIEW

Growth Strategy

The Company has outlined a two-stage growth plan.

Phase 1: Become a mid-tier 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 via a mill expansion as gold inventories increase.

The Company's objective is to increase reserves and production which in turn should increase earnings and cash flow per share, through both internal exploration discoveries and strategic acquisitions. The Company has and will continue to devote significant resources to exploring its land package with a view of leveraging the existing mill and infrastructure, which was recently expanded from a nominal capacity of 2 million tonnes per annum ("Mtpa") to approximately 4 Mtpa. The Company expects to produce between 190,000 to 210,000 ounces in 2013, confirming the 200,000 ounce production base crucial to the Company's growth trajectory.[4]

In the third quarter of 2012, the Company added depth to its management team to focus on growth. Alan Hill was appointed Executive Chairman, formerly Chairman and Chief Executive Officer and Richard Young was appointed President and Chief Executive Officer, formerly President and Chief Financial Officer. Mark English was also promoted to Vice President, Sabodala Operations, formerly Manager, Sabodala Gold Operations. In addition, Navin Dyal and Paul Chawrun were appointed Vice President and Chief Financial Officer and Vice President, Technical Services, respectively.

A technical services team has been established at the corporate office in Toronto to focus on optimizing strategic growth initiatives and to provide technical support to our operations.

Technical support for the growth initiatives includes resource modelling for existing mine licence (ML) prospects including the Sabodala pit, strategic optimization of the regional land package, engineering support for potential project development, evaluating merger and acquisition (M&A) targets and corporate reporting for resources and reserves.

Technical support for our existing operations includes engineering and geology for the development of the Gora project, continual improvement initiatives at our operations and technical support for site specific projects.

[4] This production target is based on proven and probable reserves only. Based on existing proven and probable reserves, this annual production rate would equate to an approximate 8 year mine life

Gora Development

At the Gora deposit, a combination of receipt of final assays, re-modelling and application of geo-statistics resulted in an increase in the Measured and Indicated Resource to 374,000 ounces of gold at 5.0 gpt. Technical and environmental work continued during 2012 and has progressed to initiate the permitting process in the first quarter of 2013.

Gora is planned to be operated as a satellite to the Sabodala mine with 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 Sabodala feed as required.

Mining by open pit methods will produce approximately 500,000 tonnes of ore per year for four years, with a grade ranging from 2.8 gpt to 4.9 gpt with an average mined feed grade of 4.22 gpt gold, for a total mineral reserve of 285,000 ounces of gold.[5] Metallurgical testing has revealed that Gora ore has similar properties to the Sabodala ore body and therefore blending will not impact overall gold recovery.

A series of environmental and pre-development technical studies as well as local consultation have been undertaken to support the development proposal.

The project capital cost is estimated to be \$45 to \$50 million. The primary cost is the purchase of the mobile equipment fleet, which will be utilized as part of Teranga's long term mine plan upon completion of Gora. Additional costs include installation of the required infrastructure and project execution costs.

Total cash costs for Gora are estimated to average \$675 to \$700 per ounce sold on a life-of-mine basis. The Project economics based on the proposed operating scenario and a discount rate of 5 percent return an after tax net present value (NPV 5 percent) of \$105 million and an internal rate return (IRR) of 69 percent.[6]

Mine License (ML) Reserve Development

The Sabodala Mine License covers 33 km^2 and, in addition to the mine related infrastructure, contains the Sabodala, Masato, Niakafiri, Niakafiri West, Soukhoto and Dinkokhono deposits.

Total reserves as of December 31, 2012 on the ML were 33.13 million tonnes at 1.22 gpt totalling 1.30 million ounces, a decrease of 235,000 ounces or 15 percent. Since the updated reserves reflect drill assay results through August 2012, all drill results after August 20, 2012 will be included in an updated reserve in 2013.

As at August 20, 2012, Measured and Indicated Resources at Sabodala increased by approximately 0.7 million ounces

[5] This production target is based on existing proven and probable reserves only.
[6] Gold price assumed is \$1,500 per ounce.

to 2.1 million ounces, a 43 percent increase over Measured and Indicated Resources as at December 31, 2011, before production.

Drilling in 2012 successfully extended the Masato mineralized limits to the south and down dip onto Teranga's ML defining approximately 700,000 ounces of Inferred Resource.

The overall objective of the ML exploration program is to extend the life of mine, at a production rate of approximately 200,000 ounces per year at grades between 1.5 and 2.0 gpt, to the year 2020 to 2025, which would result in a 10 to 15 year mine life since the IPO in 2010.[7] While we had targeted to reach this reserve level by mid-2013, based on our exploration results in 2012 and the plan to drill more of our high potential areas on the ML in 2013, it will likely require at least another year to extend the mine life to at least 2020 and beyond at current production rates.

In 2012, we drilled 104,400 metres at a cost of $26 million on the ML. The original ML budget was $20 million for 2012 but was expanded during the year to follow up on positive drill results at Sabodala.

Sabodala – Main Flat Extension (MFE) / Lower Flat Zone (LFZ)

The Sabodala Pit optimization work completed in the first quarter of 2012, based on the high grade drill results from the fourth quarter of 2011, defined a projected pit shell that included the LFZ at depth. More than 75,000 metres of drilling was completed at Sabodala in 2012 to define this section of the ore body.

Drilling targeted the MFE immediately adjacent to the current ultimate pit, as well as the LFZ located below and to the north of the MFE, confirming the continuation of these zones. The targeted zones are positioned between 250 metres and 450 metres below the surface. The MFE and LFZ remain open down plunge and to the northwest.

The MFE down dip to the SW and SE of the existing open pit operations at Sabodala was also successfully drilled in 2012. These targets range from 60 metres to 250 metres below the surface and are open down dip.

Drilling is currently underway from within the pit to test the MFE as it dips to the north and in more shallow areas along the perimeter to the west and east of the current pit. If the mineralization in the extended areas of the known MFE is not sufficient to support the economics of a larger pit, a separate underground analysis will be undertaken in 2013 on the LFZ where a majority of the increase in Measured and Indicated Resources were defined in the September 1, 2012 update.

Waste dump condemnation drilling to the SE of the Sabodala open pit encountered a zone of mineralization within the general trend of the NW Shear projected to the SE near to the base of Sambaya Hill. Drilling late in the year targeted this area and results are pending.

The 2013 drill program for Sabodala is expected to be completed in the first quarter of 2013. At that time Management will assess the economics of both a larger open pit as well as evaluate an underground development option in the LFZ.

Conversion of a large portion of these resources to open pit reserves will likely require higher gold prices as the orientation of both the MFE and LFZ appear to be more steeply dipping than originally anticipated, negatively affecting the economics of an enlarged pit shell.

Niakafiri

Expectations are to increase reserves and resources in 2013 at Niakafiri. A drill program is planned at the Niakafiri deposit immediately below the current open pit reserve to further delineate mineralization at depth, where the deposit remains open at 200 metres. In addition, drilling will target the area immediately to the north where the remainder of the resource has been defined, and pending positive results, potentially expand the Niakafiri reserves estimate to include this area. Drilling is planned to begin in the second quarter 2013 pending community discussions.

Niakafiri West and Soukhoto

Gold mineralization at Soukhoto and Niakafiri West is hosted in multiple shallow dipping zones with more steeply dipping high-grade zones located in crossing structures. The Soukhoto and Niakafiri West targets are positioned from 30 metres to 200 metres below surface. Niakafiri West remains open to depth.

Masato

The Masato deposit outcrops on the neighbouring Oromin Joint Venture Group ("OJVG") property to the east of the ML approximately 2 kilometres from the Sabodala mill. The OJVG has defined an open pit mineable reserve at Masato. The deposit has a strike length of over 2 kilometres. Gold is hosted in a shear zone that strikes north and sits immediately east of the Teranga/OJVG property boundary in the main deposit area.

Dinkokhono

The Dinkokhono deposit is part of the Niakafiri Shear system located about 1 kilometre north of the Niakafiri deposit. Some of the mineralization defined by earlier drilling is included in the Inferred Resource reported from Niakafiri. Drilling in 2012 was intended to infill previous drilling and test for crossing structures, however, this was deferred to 2013.

[7] This exploration target is not a Mineral Resource. The potential quality and grade is conceptual in nature and there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource.

Mamasato

Drilling in 2012 established the continuation of the Mamasato deposit located directly across the boundary on the OJVG property onto the Sabodala ML. Gold mineralization is contained in veins with variable strike orientations. Additional drilling is planned to delineate this potential resource in 2013.

Regional Exploration

We continue to methodically explore our large regional land package (RLP) and are in the process of systematically building a pipeline of prospects. Unlike other West African nations, Senegal is a relative newcomer to gold mining and exploration and we look forward to discovering world-class deposits and establishing Senegal as a regional mining leader.

We currently have 10 exploration permits encompassing approximately 1,200 km^2 of land surrounding the Sabodala ML (33 km^2 exploitation permit).[8] Over the past 24 months, 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 40 anomalies, targets and prospects and we expect that several of these areas will ultimately be developed into mineable deposits. Through 2012 we were able to identify 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 deposit takes time as it is imperative that work is done systematically.

During 2012 we completed 62,500 metres of RAB drilling, 42,300 metres of RC and 2,400 metres of diamond drilling on 25 of our anomalies and targets, at a cost of $20 million. Highlights from the 2012 drilling program are:

- The discovery of a new prospect at Tourokhoto-Marougou with a minimum strike length of 1,200 metres.
- Identification of significant mineralization from RAB drilling at Saiensoutou extending for at least 1,400 metres in strike length.

A 4,500 metre program of infill RC drilling commenced at Marougou in the fourth quarter of which 2,900 metres were completed at the end of the year. The program was designed to infill drill on 200 metres spaced lines to establish the continuity of the mineralization discovered earlier in the year. The remainder of the program will be completed in the first quarter of 2013.

On the non-drilling front significant developments on key targets include:

- Receipt of assays for detailed termite mound sampling over the Soreto and Diabougou prospects. This work highlighted that the artisanal mine workings in the area which extend for over one kilometre in strike length are part of a 4 kilometres long gold anomaly coincident with a north east trending shear system.
- Receipt of multi-element geochemistry for detailed termite mound sampling over the Nienyenko prospect. This work highlighted an extensive alteration-related multi-element footprint centred on the known gold anomalies and mineralization previously identified in trenches, thus significantly enlarging the potential size of the prospect.
- First pass data collection was completed at Garaboureya, consisting of termite mound geochemistry, mapping, rock chip sampling and acquisition of high-resolution aeromagnetics. This data resulted in the delineation of a significant gold anomaly coincident with a permissive structural setting. Interpretation work is continuing to define the drilling testing program on this target for 2013.

The program for 2013 has been budgeted and will focus on fast-tracking work on our current priority targets at Nienyenko, Soreto, Diabougou, Tourokhoto-Marougou and Saiensoutou. Other targets will be followed up as work progresses on the RLP. A minimum budget of $20 million is allocated for the combined exploration programs on the RLP and ML. Additional funding is available and will be allocated on a priority basis for prospects with clear potential for reserves definition.

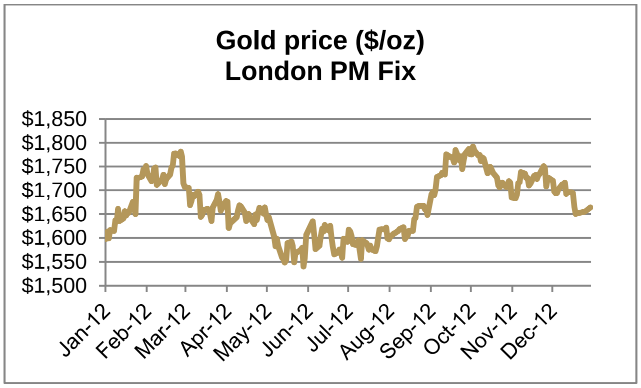
Beyond the current RLP, the Company is focused on acquiring additional exploration licenses in Senegal. The Company also expects to augment its internal growth by strategic acquisitions of companies or assets including operating assets that have growth potential or attractive exploration packages initially in Senegal but ultimately elsewhere in West Africa.

Health and Safety

Health and safety is a constant and overriding priority at Sabodala. It truly 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 yearly begins with safety. We are emphatic about keeping health and safety top of mind. The Operational Health and Safety (OHS) program has undergone a complete review in 2012. OHS management plans have been completed to address the four key areas of the business: Administration, Operations, Exploration, and Construction. A strong focus was placed on proactive, people-based safety management systems and the guidance documentation to achieve this has been completed. As Teranga continues to develop the occupational health and safety programs there will be a strong focus for these programs to penetrate into the workforce.

[8] The Company's 11th exploration permit, Sabodala North West, was not renewed by the Government in June 2012. The Company has since appealed this decision and is awaiting a response from the Government.

Market Review – Impact of Key Economic Trends



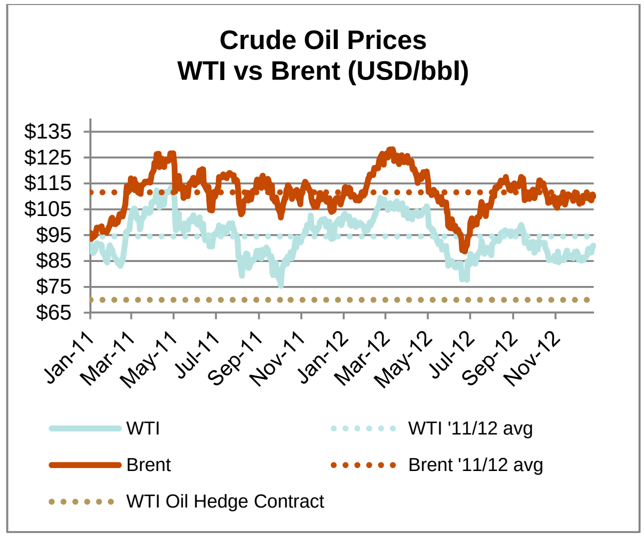
Source: http://www.lbma.org.uk

The price of gold is the largest factor in determining our profitability and cash flow from operations. During 2012, the average market price of gold was $1,669 per ounce, with gold trading between a range of $1,540 and $1,792 per ounce based on the London PM Fix gold price. This compares to an average of $1,572 per ounce during 2011, with a low of $1,319 and a high of $1,895 per ounce.

The price of gold is subject to volatile price movements over short periods of time and is affected by numerous industry and macro-economic 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. In 2012, due to a continuation of concerns over global economic growth, geopolitical issues, sovereign debt and deficit levels, and continuing accommodative monetary policies put in place by many of the world's central banks, particularly those in the major economies including the U.S., Japan, China and the European Union, gold has continued to attract investor interest through its role as a safe haven investment, store of value and alternative to fiat currency.

Gold prices also continue to be influenced by trends in global mine production and the impact of central bank activities with a growing number of banks showing interest in gold as a reserve asset. Central banks, which had previously been net sellers of gold for several years until they became net buyers in 2010, continued to increase purchases which were up more than 17 percent in 2012 compared to 2011. This was primarily driven by very low sales by signatories to the Central Bank Gold Agreement (CBGA). As of December 31, 2012 the CBGA had sold only 5 tonnes of gold below the annual average of 385 tonnes over the 2000-2009 period, and continued buying by central banks outside of the Central Bank Gold Agreement in order to diversify their foreign exchange holdings.[9]

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 short and near term goals, effective management of the Sabodala operations and exploration program to increase production and reserves which should translate into growth in earnings and cash flow per share.



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

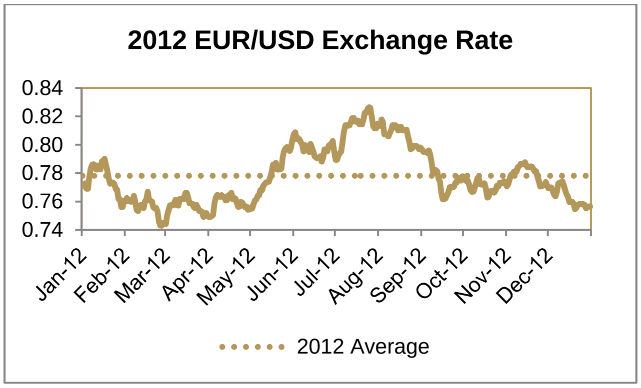
Fuel costs for power generation and operation of the mobile fleet are the single largest cost to the Sabodala mine. Fuel purchased to operate the power plant and mobile equipment fleet totalled $46 million in 2012 or approximately 35 percent of operating costs.

The Sabodala operation is located in remote southeastern Senegal and it is necessary to generate our own power. Six, 6 megawatt Warstila (diesel generator engines) provide power for the operations. In 2012, the operations consumed approximately 20 million litres of HFO. This equates to approximately $0.21/kwhr, which is less than the cost of grid electricity in industrialized Senegal.

Sabodala consumes Brent crude oil and we forecast that in 2013 we will expend approximately 50 million litres of oil. The Company hedged a portion of its exposure to fuel costs by hedging its exposure to crude oil prices. The Company hedged 20,000 barrels of oil per quarter through March 31, 2013. Management may enter into further oil hedge contracts should the price and terms be deemed acceptable.

The spot WTI crude oil price has moved above the hedge contract price which has been favourable for Teranga. However, since establishing the hedge contract, a wider price gap has emerged between WTI and Brent, with 2012 year end Brent and WTI prices at approximately $110 per barrel and $92 per barrel, respectively. This has meant that the hedge contracts have been less effective as Sabodala consumes Brent crude oil rather than WTI crude oil.

[9] Source: Thomson Reuters GFMS



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

A portion of operating costs and capital expenditures of Sabodala gold mine operations are denominated in currencies other than US dollars. Historical accounts payables records demonstrate that the Company has an approximate 75 percent EUR exposure via West African CFA Franc, which is pegged with the EUR and also directly with the EUR.

Throughout 2012, the Euro currency experienced continued volatility due to the ongoing debt crisis. The year opened with credit downgrades to several of the key players in debt crisis while Spain and Cyprus became the fourth and fifth Eurozone countries requesting a bail out. Anti-austerity protests across Europe took place, demonstrating that Eurozone stability measures were not widely supported. During September of 2012, the European Central Bank announced an unlimited sterilization bond-buying program whereby the central bank purchased bonds, but concurrently took money out of circulation to control the money supply. Being the primary backer to many of the stabilization measures, Germany was often resistant to the measures. However, a September German court ruled in favour of supporting the European Stability Mechanism, renewing confidence in the Eurozone's ability to recover from the crisis.

Generally, as the US dollar strengthens, the EUR and other currencies weaken, and as the US dollar weakens, the EUR 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.

CASH FLOW

(US$000s)	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Cash flow		
Operating	72,447	5,132
Investing	(79,458)	(113,522)
Financing	39,678	115,262
Effect on exchange rates on holdings	(415)	598
Change in cash and cash equivalents during period	**32,252**	**7,470**
Cash and cash equivalents - beginning of period	7,470	-
Cash and cash equivalents - end of period	**39,722**	**7,470**

Note (1) Cash and cash equivalents exclude restricted cash and cash held investments of longer than 90 days

Operating Cash Flow

Operating cash flow for the twelve months ended December 31, 2012 was $72.4 million compared to $5.1 million in the fifteen months ended December 31, 2011. Operating cash flows in 2012 benefitted from higher gross profit, as a result of higher sales.

Investing Cash Flow

CAPITAL EXPENDITURES (US$000s)	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Mine site capital expenditures	52,875	62,033
Capitalized reserve development	26,086	14,359
Development capital	4,289	-
Total capital expenditures	**83,250**	**76,392**

Net cash used in investing activities for the twelve months ended December 31, 2012 was $79.5 million, compared to $113.5 million in the fifteen month ended December 31, 2011. The decrease reflects lower mine site capital expenditures due to completion of the mill expansion, offset by higher capitalized reserved development on the ML and higher development capital for Gora. The amounts presented in the fifteen-month period includes the repayment of the C$50 million promissory note due to MDL from proceeds of the IPO, net of cash received on acquisition of the Sabodala Gold Assets.

Capital expenditures for 2013, including capitalized deferred stripping, are expected to total between $105 and $125 million. It is estimated that $20 to $25 million will be spent on capital expenditures at Sabodala which mostly relate to mobile equipment to expand the mining rate, a new tailings storage facility, new airstrip and community relations projects. The cost to construct the Gora satellite deposit is estimated between $45 and $50 million, including $30 to $35 million for mobile equipment and $15 to $20 million to construct a road to the Sabodala mill and site development costs. The timing of expenditures at Gora is dependent on the timing of receipt of permits. The Environmental Impact Assessment and Technical Study for the Gora deposit are expected to be submitted in first quarter 2013 for review by the Government of Senegal.

The capitalized mine reserve development budget for 2013 is expected to total $5 to 10 million. This budget includes the continuation of the resource expansion and conversion program on the mine license. Capitalized deferred stripping costs are expected to be between $35 and $40 million related to waste stripping activities capitalized within the Sabodala pit under a new accounting standard under International Financial Reporting Standards (IFRS). For a description of this new standard, please see page 25 of this Report.

Financing Cash Flow

Net cash provided by financing activities for the twelve months ended December 31, 2012 was $39.7 million compared to net cash provided by financing activities of $115.3 million in the fifteen months ended December 31, 2011. Net cash provided by financing activities in 2012 included the drawdown of the loan facility of $60 million received at the end of the second quarter 2012, partially offset by repayments of the finance lease facility of $16.8 million. Financing cash flows in 2011 includes proceeds from the IPO, net of issuance costs, partially offset by repayments of the finance lease facility of $10.8 million.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity continues to improve, even as it extinguishes its hedge book, with $39.7 million in cash, cash equivalents in addition to 6,409 ounces in bullion inventory at December 31, 2012. The gold forward sales contracts declined during 2012 to 59,789 ounces as at December 31 2012. Forward sales contracts have declined by an additional 21,684 ounces to 38,105 ounces at January 29, 2013 and are scheduled to be fully extinguished by June 2013. In total, forward sales contracts outstanding have declined by 136,395 ounces since December 31, 2011. Management believes that the higher cash balance, extinguishment of the hedge book and 200,000 ounces of production level at Sabodala are expected to be sufficient to support the Company's minimum operating requirements without the need for additional equity financing.

During the fourth quarter 2012, the Company purchased additional mining equipment to increase the mining rate in the Sabodala pit in the amount of $13.4 million, of which approximately $6 million was spent in 2012. The equipment is intended to be financed by a new equipment lease facility with Macquarie Bank Limited ("Macquarie") which is expected to be finalized in the first quarter of 2013. The new facility is expected to provide $50 million of equipment financing and will be used to refinance the existing Société Générale lease facility at a margin significantly lower than the current bank loan.

In addition, the Company continues to review the merits of various debt facilities to provide additional flexibility to execute its growth strategy. Such incurrence of debt may be in the form of one or more borrowings of bank or other similar loans. There can, however, be no assurance that the Company will find the terms on such debt reasonable and therefore may not put a new facility in place.

The Company has counterparty risk relating to advances provided to suppliers as well as to receivables from the sale of gold bullion. The cash and cash equivalents are invested in short-term Term Deposits issued by Canadian banks and in sovereign debt. The Company has adopted a strategy to minimize its credit risk by substantially investing in sovereign debt issued by Canadian Agencies, Provinces and the Federal Government of Canada. A minimal cash amount is held with the Senegal banks.

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.

A condition of the Project Finance Facility provided by Macquarie Bank Limited was the establishment of gold forward sales contracts and oil energy swaps to manage exposure to commodity price risk.

Following a restructure late in 2008, a total of 399,000 ounces of gold was committed forward for delivery between May 2009 and August 2013 at an average delivery price of $826 per ounce. Deliveries into the hedge position of 339,211 ounces have reduced the hedge balance to 59,789 ounces at December 31, 2012 and 38,105 ounces at January 29, 2013. The mark-to-market at the reporting date spot price of $1,664 per ounce was in a loss position of $51.5 million.

The Company has 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. At December 31, 2012, the remaining 20,000 barrels were hedged with a mark-to-market gain of $0.5 million at the reporting date spot price of $92 per barrel.

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, 2012, the Company had the following payments due on contractual obligations and commitments:

Payments Due By Period (US$M)					
	Total	< 1 year	1-3 years	4-5 years	>5 years
Mining Fleet Lease Facility(1)	10.5	10.5	—	—	—
2 -Year Loan Facility(2)	60.0	—	60.0	—	—
Exploration commitments(3)	27.6	2.3	25.3	—	—
Government of Senegal payments(4)	5.1	5.1	—	—	—
Plant expansion(5)	0.6	0.6	—	—	—
Mining equipment supply contract(6)	7.3	7.3	—		
Total	**111.1**	**25.8**	**85.3**	**—**	**—**

(1) In 2010, an amended facility was concluded with a new limit of $27.8 million to provide for the acquisition of additional mining equipment associated with the Sabodala expansion ($15.1 million) and the re-gearing of existing equipment ($2.2 million). During the year ended December 31, 2011, the Company finalized the expansion of the mobile equipment loan with Société Générale by an additional $12.8 million. The amended facility contains a quarterly repayment schedule concluding with the final payment on September 30, 2013. The facility is currently drawn down to $10.5 million.
(2) 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 and shall be repaid on or before June 30, 2014.
(3) Reflects the exploration permits, licenses and drilling contracts committed to by the Company.
(4) Comprises $4.0 million, to which an annual interest rate of 6 percent applies, payable to the Government of Senegal relating to the historical cost of acquiring the Mine License. Subsequent to year end, full payment was made to the Government of Senegal.
(5) Represents amounts to be paid for the Sabodala mill expansion over the next 12 months.
(6) During the third quarter of 2012, the Company finalized a contract to purchase additional mining equipment. The equipment is intended to be financed by a new equipment lease facility with Macquarie which is expected to be finalized during the first quarter of 2013.

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 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 is payable for social development of local authorities in the surrounding Tambacounda region during the term of the Mining Concession.

$30,000 per year is payable for logistical support of the territorial administration of the region from date of notification of the Mining Concession.

$200,000 per year of production is payable for training of Directorate of Mines and Geology officers and Mines Ministry.

$4.0 million plus interest is payable to the Government of Senegal pursuant to terms included in the Sabodala Mining Licence at date of grant. The Company paid this amount along with the accrued interest subsequent to year end.

SUMMARY OF QUARTERLY INFORMATION

		2012				2011			
CALENDAR QUARTERS		**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Operating results									
Ore mined	('000t)	2,038	655	2,105	1,117	1,715	1,008	759	491
Waste mined	('000t)	5,274	6,242	5,130	6,316	4,736	5,085	5,538	6,459
Total mined	('000t)	7,312	6,897	7,235	7,433	6,451	6,093	6,297	6,950
Ore processed	('000t)	725	650	491	573	604	582	650	608
Gold produced	(oz)	71,804	55,107	45,495	41,904	36,695	27,082	33,388	34,296
Gold sold	(oz)	71,604	62,439	38,503	35,268	34,665	27,575	35,407	39,490
Average price received	($/oz)	$1,296	$1,290	$1,608	$1,712	$1,482	$1,174	$1,083	$1,199
Cash cost	($/oz sold)	$623	$594	$645	$673	$809	$928	$802	$639
Financial Results (US'000)									
Revenue	($'000)	122,970	105,014	62,010	60,526	58,026	46,678	54,066	55,067
Cost of sales	($'000)	63,302	51,033	33,083	31,905	25,755	33,133	38,517	35,638
Profit/(loss) attributable to shareholders of Teranga	($'000)	48,781	21,336	12,590	(2,783)	27,733	(24,808)	(14,413)	6,457
Operating cash flow	($'000)	56,401	150	(12,989)	28,885	7,466	(12,025)	(9,821)	20,013
Profit/(Loss) per share	$	0.20	0.09	0.05	(0.01)	0.10	(0.10)	(0.06)	0.03

Our quarterly operating results in 2012 reflect the investment made in the Sabodala mine to increase the amount of material mined and processed.

The increase in the quarterly mining rates in 2012 reflect the investment in four haul trucks, three drills and implementation of better maintenance practices.

The higher quarterly processing rate in the final two quarters of 2012 reflects the benefit of the completion of the mill expansion in the third quarter of 2012, partially offset by harder ore in 2012 compared to 2011 which negatively impacted throughput rates.

Higher gold production reflects the impact of better grades as mining in the higher grade area of Phase 2 began in the fourth quarter of 2011 and continued throughout 2012.

Average realized price varied with the percentage of gold sales into forward sales contracts that varied on a quarter by quarter basis, as well as, fluctuations in the spot price of gold.

Cash costs declined as gold sales increased. Higher mining and processing costs were more than offset by higher grade material processed, resulting in lower total cash costs per ounce.

Our financial results for the last eight quarters, particularly for 2012, reflect a trend of increasing gold production and sales which has translated into increasing revenues, profits and earnings per share, and operating cash flow.

. . .

RISK FACTORS

Teranga believes that there are some risk factors that can have a material effect on the profitability, future cash flow, earnings, results of operations, stated reserves and financial condition of the Company. If any event arising from these risks occurs, the Company's business, prospects, financial condition, results of operations or cash flows could be adversely affected, the trading price of Teranga's common shares could decline and all or part of any investment may be lost. Additional risks and uncertainties not currently known to the Company, or that are currently deemed immaterial, may also materially and adversely affect the Company's business operations, prospects, financial condition, results of operations or cash flows.

Please see Teranga's current Annual Information Form ("AIF") for the year ended December 31, 2011 for additional risk factors that should be considered by anyone considering investing in Teranga. The 2012 AIF is expected to be filed in March 2013.

CONTINGENT LIABILITIES

The Company confirmed directly or via its holding subsidiaries that it will continue to provide financial support to its subsidiaries to enable them to meet their obligations as they fall due for a period of not less than 12 months.

Subsequent to year-end in January 2013, Sabodala Mining Company SARL ("SMC") received a tax assessment from the Senegalese tax authorities claiming withholding tax of approximately $6 million on payments made to foreign providers. We have reviewed the assessment with our legal counsel and are confident that they are primarily without merit. This matter is still being reviewed and considered with the Tax authorities in Senegal and Teranga is committed to paying all taxes deemed legitimately due. SMC responded to the tax assessment in February 2013 challenging all of it except for approximately $50,000 relating to withholding taxes on payments made in 2008.

In December 2012, Sabodala Gold Operations SA ("SGO") received a tax assessment from the Senegalese tax authorities claiming withholding taxes of approximately $6 million on amounts considered as distributions, contribution of land built properties, withholding tax on salaries and withholding tax on payments made to foreign providers. SGO responded to the tax assessment including evidence supporting treatment of withholding taxes in accordance with the General Tax Code in Senegal. We have reviewed the assessment with our legal counsel and are confident that they are without merit and that these issues will be resolved with no or an immaterial amount of tax due.

During the year 2011, SGO received a tax assessment from the Senegalese tax authorities claiming withholding taxes of approximately $24 million relating to interest paid to SGML Capital under the Mining Fleet Lease facility, director's fees and services rendered by offshore companies. SGO responded to the tax assessment including evidence supporting treatment of withholding taxes in accordance with the General Tax Code in Senegal. In January 2012 the tax assessment was re-confirmed by the Senegalese tax authorities. We have reviewed the alleged breaches identified by the Senegalese tax authorities with our legal counsel and are confident that they are without merit and that these issues will be resolved with no or an immaterial amount of tax due. As a result, in February 2012 SGO filed a notice to refer the tax assessment to arbitration in accordance with Senegalese laws. The arbitration ruling is appealable to International Chamber of Commerce of Paris. To date, Senegalese authorities have failed to respond to our requests for a resolution on this matter.

In January 2012 the Official Journal of the Republic of Senegal issued notice of a new financial act that would impose a 5 percent "contribution" on the sale of products from mines and quarries. In April 2012, SGO received an official request by the tax authorities in Senegal, followed by a follow-up request in May 2012, for payment of 5 percent of gold sales completed in March pursuant to this new financial act. SGO has challenged the assessment under this new 5 percent tax citing the fiscal stability provisions included in its Sabodala Mining Convention, based on the opinions received from both national and international counsel. In fourth quarter 2012, the Government of Senegal issued a second assessment relating to gold sales during the second quarter. Should this issue not be resolved with the Government of Senegal, we can appeal the government's decision to apply the tax to the International Chamber of Commerce of Paris pursuant to our rights under our Sabodala Mining Convention. During the third quarter 2012, the Government of Senegal began enforcement measures against all mining companies impacted by this new tax on mining products. As of the date of this report, the Government of Senegal has collected a total of $850,000 from the Company in partial satisfaction of amounts assessed to June 30, 2012. The potential impact to the Company's earnings and total cash costs is approximately $11.6 million and $60 per ounce of gold sold, respectively, for the twelve months ended December 31, 2012. The Company's Consolidated Statement of Comprehensive Income/(Loss) do not reflect this potential impact as Management believes that the special contribution tax should not apply to SGO given the fiscal stability provision in its mining convention. The Company continues to challenge the validity of the application of this tax to Sabodala Gold Operations given fiscal stability protections in its Mining Convention and anticipates that a resolution of the matter will be reached with the Government in due course.

It is Management's intention to work with the Senegalese authorities in order to find a mutually agreeable solution that respects our overall fiscal stability rights included in our Mining Convention. Teranga's vision is to grow its business in Senegal with the Government. The Company plans to work with the Government to help address some of Senegal's immediate financial needs.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The following are critical judgments that management has made in the process of applying accounting policies that have the most significant effect on the amounts recognized in the financial statements:

Fair value of derivative financial instruments

Management assesses the fair value of the Company's financial 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 financial 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 Competent Persons as defined in accordance with the Canadian Code for Reporting Mineral Resources and Ore Reserves and Qualified Persons as defined in NI 43-101, which is similar to the Australian 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

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 assumption, including the amount of recoverable reserve and estimates of future capital expenditure. The Company's units of production calculation is based on life of mine gold production. As the Company updated its estimate regarding the expected units of production over the life of the mine amortization under the units of production basis will change. Recoverable reserves increased at the beginning of 2012, resulting in a decrease in units of production amortization for the year.

Mine 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 each 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. These assessments require 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 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:

- 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, underground mine development 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 the corporate office is Canadian Dollars and the functional currency of all other 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.

The Company's corporate entity changed its functional currency from the Canadian dollar to the United States dollar as of January 1, 2012. Per IAS 21, an entity's functional currency should reflect the underlying transactions, events, and conditions relevant to the entity. Based on management's evaluation taking into consideration the currency of the main sources of income, intercompany charges, significant capital projects, source of funding of expenditures, the currency in which cash and cash deposits are maintained as well as the currency of corporate office expenditures, the functional currency of the corporate entity is determined to be the United States dollar. The change in functional currency has been accounted for prospectively.

CHANGE IN ACCOUNTING POLICIES

Inventory valuation

Effective January 1, 2012 the Company changed its method of measuring and recording the cost of stockpile, gold in circuit and gold bullion inventory. The new policy measures and records the costs associated with stockpile, gold in circuit and gold bullion inventory based on recovered ounces of gold. Under the previous policy, stockpile, gold in circuit and gold bullion costs were measured and recorded based on tonnes. The new policy better matches revenue and expenses as compared to the former policy because it attaches higher costs to the higher grade ore and charges more costs to the income statement during periods that higher grade ore is processed and sold. Management believes that the change in accounting policy for inventory valuation better matches the income statement and provides a more reliable measurement of the stockpile, gold in circuit and gold bullion inventory.

The change in accounting policy has been applied retroactively as it is shown in the Note 4 to the Company's Annual Consolidated Financial Statements.

Depreciation

In line with the change in the method of measuring and recording inventory, the Company changed its accounting policy regarding units of production depreciation as of January 1, 2012. Under the previous method, units of production fixed assets were amortized over life of mine tonnes processed. The new policy is based on recovered ounces of gold. Management believes that the change in accounting policy for units of production depreciation better matches revenue and costs.

The change in accounting policy has been applied retroactively as it is shown in the Note 4 to the Company's Annual Consolidated Financial Statements.

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. IFRIC 20 must be applied starting January 1, 2013 with early adoption permitted. The Company has performed a preliminary assessment of the impact of adopting IFRIC 20 on its consolidated financial statements indicating that we will capitalize waste stripping costs, which are not permitted under our current accounting policy. Based on our analysis, we expect that our restated 2012 financial statements will show an increase in property, plant and equipment, a decrease in inventory and an increase in profit. The quantum of these changes is currently under review in preparation of our first quarter 2013 report.

NON-IFRS FINANCIAL MEASURES

The Company provides some non-IFRS measures as supplementary information that management believes may be useful to investors to explain Teranga's financial results. "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 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 measure of other companies.

"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 and total depreciation per ounce sold are calculated as follows:

		Three months ended December 31,		Twelve months ended December 31,	
		2012	2011 restated	2012	2011 restated
Gold produced	oz	71,804	36,695	214,310	131,461
Gold sold	oz	71,604	34,665	207,814	137,136
Cost of sales (1)	($'000)	63,302	25,755	179,323	133,043
Less: depreciation and amortization	($'000)	(17,953)	(8,676)	(52,660)	(35,035)
Less: realized oil hedge gain	($'000)	(365)	(481)	(1,936)	(2,009)
Add: non-cash inventory movement	($'000)	346	516	6,377	902
Less: other adjustments	($'000)	(689)	10,924	(816)	10,331
Total cash costs	($'000)	**44,642**	**28,038**	**130,288**	**107,232**
Total cash costs per ounce sold	**$/oz**	**623**	**809**	**627**	**782**
Depreciation and amortization	($'000)	17,953	8,676	52,660	35,035
Non - cash inventory movement	($'000)	(346)	(516)	(6,377)	(902)
Total depreciation and amortization	($'000)	**17,607**	**8,160**	**46,283**	**34,133**
Total depreciation and amortization per ounce sold	**$/oz**	**246**	**235**	**223**	**249**
Total production costs per ounce sold	**$/oz**	**869**	**1,044**	**850**	**1,031**

(1) Total cash costs per ounce sold for each quarter of 2011 were restated to comply with the Company's new accounting policies for measuring and recording ore stockpile costs, and reporting total cash costs after inventory movement, in line with the Company's accounting policies and industry standards.

OUTSTANDING SHARE DATA

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

	Outstanding
Ordinary shares	245,618,000
Stock options granted at an exercise price of $3.00 per option	17,139,167
Fully diluted share capital	262,757,167

TRANSACTIONS WITH RELATED PARTIES

Equity interests in related parties

Details of percentages of ordinary shares held in subsidiaries are disclosed in Note 39 to Company's Annual Consolidated Financial Statements.

Transactions with key management personnel

Details of key management personnel compensation are disclosed in the Note 38 to the Company's Annual Consolidated Financial Statements.

No loans were made to directors or director-related entities during the year.

Transactions with other related parties

There was zero balance outstanding to related parties as at December 31, 2012.

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.

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, 2012, 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 COSO. There is no material weakness relating to the design of ICFR. There is no limitation on scope of design as described in paragraph 3.3 of NI 52-109.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted as of December 31, 2012 by the Company's management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as of December 31, 2012, the Company's DC&P are effective to ensure that information required to be disclosed in reports that we file or submit under Canadian securities legislation is summarized and reported within the time periods specified therein. The Company's management, under the supervision of the CEO and the CFO, has evaluated the effectiveness of its internal control over financial reporting. Based on this evaluation, management has concluded that internal control over financial reporting was effective as of December 31, 2012. There is no limitation on scope of design as described in paragraph 5.3 of NI 52-109. There has been no change in the Company's ICFR that occurred during the year ended December 31, 2012 which has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

RISKS AND UNCERTAINTIES

The Company is subject to various financial and operational risks and uncertainties that 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.

COMPETENT PERSONS STATEMENT

The technical information contained in this Report relating to the mineral reserve estimates within the Sabodala, Sutuba, Niakafiri and Gora deposits and the Stockpiles, is based on information compiled by Julia Martin, P.Eng., MAusIMM (CP), 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 has reviewed and accepts responsibility for the reserve estimates disclosed above. Ms Martin has consented to the inclusion in the report 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 the mineral resources is based on information compiled by Ms. Patti Nakai-Lajoie, who is a Member of the Association of Professional Geoscientists of Ontario. Ms. Patti Nakai-Lajoie is full time employee of Teranga and is not "independent" within the meaning of National Instrument 43-101. Ms. Patti Nakai-Lajoie has sufficient experience which is relevant to the style of mineralisation 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. Patti Nakai-Lajoie is a "Qualified Person" under National Instrument 43-101 Standards of Disclosure for Mineral Projects.and she consents to the inclusion in the report 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 exploration results is based on information compiled by Mr. Martin Pawlitschek, who is a Member of the Australian Institute of Geoscientists. Mr. Pawlitschek is a consultant of Teranga and is not "independent" within the meaning of National Instrument 43-101. Mr. Pawlitschek has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he 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". Mr. Pawlitschek is a "Qualified Person" in accordance with NI 43-101 and he consents to the inclusion in the report of the matters based on his information in the form and context in which it appears in this Report.

CORPORATE DIRECTORY

Directors
Alan Hill, Executive Chairman
Richard Young, President and CEO
Christopher Lattanzi, Non-Executive Director
Oliver Lennox-King, Non-Executive Director
Alan Thomas, Non-Executive Director
Frank Wheatley, Non-Executive Director

Senior Management
Alan Hill, Executive Chairman
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 & Corporate Secretary
Kathy Sipos, Vice President, Investor & Stakeholder Relations
Macoumba Diop, General Manager and Government Relations Manager, SGO

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F: +221 338 603 683

Auditor
Deloitte & Touche LLP

Share Registries
Canada: Computershare Trust Company of Canada
T: +1 800 564 6253
Australia: Computershare Investor Services Pty Ltd
T: 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 of Investor Relations:
T: +1 416 594 0000
E: ksipos@terangagold.com

Consolidated Financial Statements of

TERANGA GOLD CORPORATION

For the periods ended December 31, 2012 and 2011

TABLE OF CONTENTS

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, Deloitte & Touche LLP, have conducted an audit in accordance with generally accepted auditing standards, and their report follows.

Alan Hill	**Richard Young**	**Navin Dyal**
Executive Chairman	President and Chief Executive Officer	Chief Financial Officer

Deloitte.

Deloitte LLP
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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 statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of comprehensive income/(loss), consolidated statements of changes in equity and consolidated statements of cash flows for the year ended December 21, 2012 and the fifteen months ended December 31, 2011, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 auditor's 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 auditor considers 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 in our audits 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, 2012 and December 31, 2011, and its financial performance and its cash flows for the year ended December 21, 2012 and the fifteen months ended December 31, 2011in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Chartered Accountants
Licensed Public Accountants
February 20, 2013

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME / (LOSS)

	Note	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011 (Note 5)
Revenue	8	350,520	236,873
Cost of sales	9	(179,323)	(148,812)
Gross profit		**171,197**	**88,061**
Exploration and evaluation expenditures		(16,657)	(31,659)
Administration expenses	10	(17,931)	(13,448)
Share based compensation	36	(4,694)	(12,411)
Finance costs	11	(7,789)	(2,946)
Losses on gold hedge contracts		(15,274)	(47,943)
(Losses)/gains on oil hedge contracts		(427)	2,203
Net foreign exchange (losses)/ gains		(2,574)	4,486
Impairment of available for sale financial asset	25	(11,917)	-
Other income	8	36	848
		(77,227)	**(100,870)**
Profit/(loss) before income tax		**93,970**	**(12,809)**
Income tax benefit	12	115	92
Profit/(loss) for the period		**94,085**	**(12,717)**
Profit/(loss) attributable to:			
Shareholders		79,924	(16,040)
Non-controlling interests		14,161	3,323
Profit/(loss) for the period		**94,085**	**(12,717)**
Other comprehensive income/(loss):			
Exchange differences arising on translation of Teranga corporate entity	26	(63)	(935)
Change in fair value of available for sale financial asset, net of tax	25	6,775	(1,319)
Other comprehensive income/(loss) for the period		**6,712**	**(2,254)**
Total comprehensive income/(loss) for the period		**100,797**	**(14,971)**
Total comprehensive income/(loss) attributable to:			
Shareholders		86,636	(18,294)
Non-controlling interests		14,161	3,323
Total comprehensive income/(loss) for the period		**100,797**	**(14,971)**
Earnings/(losses) per share from operations attributable to the shareholders of the Company during the period			
- basic earnings/(losses) per share	27	0.33	(0.07)
- diluted earnings/(losses) per share	27	0.33	(0.07)

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

CONSOLIDATED FINANCIAL STATEMENTS OF
TERANGA GOLD CORPORATION
DECEMBER 31, 2012
(in $000's of United States dollars, except per share amounts)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at December 31, 2012	As at December 31, 2011 (Note 5)
Current assets			
Cash and cash equivalents	34	39,722	7,470
Short-term investments		-	593
Restricted cash		-	3,004
Trade and other receivables	13	6,482	20,447
Inventories	14	82,474	48,365
Financial derivative assets	15	456	2,288
Other assets	16	12,896	12,751
Available for sale financial assets	25	15,010	19,800
Total current assets		**157,040**	**114,718**
Non-current assets			
Inventories	14	40,659	31,942
Financial derivative assets	15	-	532
Property, plant and equipment	17	241,838	238,510
Mine development expenditures	18	109,060	89,825
Intangible assets	19	1,859	1,085
Total non-current assets		**393,416**	**361,894**
Total assets		**550,456**	**476,612**
Current liabilities			
Trade and other payables	20	44,823	43,238
Borrowings	21	10,415	16,468
Financial derivative liabilities	22	51,548	79,241
Provisions	23	1,940	1,954
Total current liabilities		**108,726**	**140,901**
Non-current liabilities			
Financial derivative liabilities	22	-	50,318
Provisions	23	10,312	9,215
Borrowings	21	58,193	7,509
Total non-current liabilities		**68,505**	**67,042**
Total liabilities		**177,231**	**207,943**
Equity			
Issued capital	24	305,412	305,412
Foreign currency translation reserve	26	(998)	(935)
Equity-settled share based compensation reserve		16,358	12,599
Investment revaluation reserve		5,456	(1,319)
Accumulated income/(loss)		36,549	(43,375)
Equity attributable to shareholders		**362,777**	**272,382**
Non-controlling interests		10,448	(3,713)
Total equity		**373,225**	**268,669**
Total equity and liabilities		**550,456**	**476,612**

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

Approved by the Board of Directors

Alan Hill
Director

Alan Thomas
Director

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011 (Note 5)
Issued capital			
At January 1, 2012 / October 1, 2010		305,412	
Shares issued on incorporation of the Company		-	-
Shares issued on the acquisition of the Sabodala gold mine and a regional exploration package	24	-	186,665
Shares issued from public and private offerings	24	-	135,005
Less: Share issue costs	24	-	(16,258)
At December 31		305,412	305,412
Foreign currency translation reserve			
At January 1, 2012 / October 1, 2010		(935)	-
Exchange difference arising on translation of Teranga corporate entity	26	(63)	(935)
At December 31		(998)	(935)
Equity-settled share based compensation reserve			
At January 1, 2012 / October 1, 2010		12,599	-
Equity-settled share based compensation reserve		3,759	12,599
At December 31		16,358	12,599
Investment revaluation reserve			
At January 1, 2012 / October 1, 2010		(1,319)	-
Impairment of available for sale financial asset		1,319	-
Change in fair value of available for sale financial asset, net of tax	25	5,456	(1,319)
At December 31		5,456	(1,319)
Accumulated income/(loss)			
At January 1, 2012 / October 1, 2010		(43,375)	-
Profit/(Loss) attributable to shareholders		79,924	(16,040)
Impact of change in accounting policy	5	-	(27,335)
At December 31		36,549	(43,375)
Non-controlling interest			
At January 1, 2012 / October 1, 2010		(3,713)	-
Non-controlling interest arising from demerger - November 23, 2010		-	(7,036)
Non-controlling interest - portion of profit for the period		14,161	3,323
At December 31		10,448	(3,713)
Total shareholders' equity at December 31		**373,225**	**268,669**

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011 (Note 5)
Cash flows related to operating activities			
Profit/(loss) for the period		94,085	(12,717)
Depreciation of property, plant and equipment	17	41,999	29,541
Depreciation of capitalized mine development costs	18	11,142	10,200
Amortization of intangibles	19	650	490
Amortization of borrowing costs	11	877	328
Unwinding of discount	23	53	47
Share based compensation	36	3,759	12,411
Net change in losses on gold hedge		(39,010)	(1,789)
Net change in losses on oil hedge		2,364	113
Buyback of gold hedge sales contracts		(39,000)	-
Income tax paid		-	(638)
Mine restoration and rehabilitation provision		-	425
Deferred income tax benefit on reversal of temporary differences		-	(231)
Impairment of available for sale financial asset	25	11,917	-
Profit on disposal of property, plant and equipment		(131)	-
Changes in working capital	34	(16,256)	(33,048)
Net cash provided by operating activities		**72,449**	**5,132**
Cash flows related to investing activities			
Decrease/(Increase) in restricted cash		3,004	(3,004)
Redemption of short-term investments		593	181
Expenditures for property, plant and equipment	17	(51,451)	(60,825)
Expenditures for mine development	18	(30,377)	(14,359)
Acquisition of intangibles	19	(1,424)	(1,208)
Proceeds on disposal of property, plant and equipment		195	-
Payment for acquisition of Sabodala gold mine and regional land package net of cash acquired		-	(34,307)
Net cash used in investing activities		**(79,460)**	**(113,522)**
Cash flows related to financing activities			
Proceeds from issuance of capital stock, net of issue costs		-	118,747
Loan facility, net of borrowing cost paid		57,695	-
Repayment of borrowings		(16,799)	(10,849)
Drawdown from finance lease facility, net of financing cost paid		2,857	9,612
Interest paid on borrowings		(4,075)	(2,248)
Net cash provided by financing activities		**39,678**	**115,262**
Effect of exchange rates on cash holdings in foreign currencies		(415)	598
Net increase in cash and cash equivalents held		**32,252**	**7,470**
Cash and cash equivalents at the beginning of period		**7,470**	**-**
Cash and cash equivalents at the end of period		**39,722**	**7,470**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 was created to acquire the Sabodala gold mine and a large regional exploration land package, located in Senegal, West Africa, along with shares held in Oromin Explorations Ltd. ("Oromin") from Mineral Deposits Limited ("MDL"), collectively referred to as the Sabodala Gold Assets. The Sabodala gold mine, which came into operation in 2009, is located 650 kilometres southeast of the capital Dakar within the West African Birimian geological belt in Senegal, and about 90 kilometres from major gold mines in Mali.

The address of its principal office is 121 King street West, Suite 2600, Toronto, Ontario, Canada M5H 3T9.

2. DE-MERGER FROM MINERAL DEPOSITS LIMITED ("Demerger")

On November 23, 2010, Teranga completed the acquisition of the Sabodala Gold Assets by a way of Demerger from MDL. As part of the Demerger certain assets consisting of all of the issued and outstanding shares of Sabodala Gold (Mauritius) Limited ("SGML"), which holds a 90% interest in the Sabodala Gold Operations SA ("SGO"), the holder of the Sabodala gold mine, and a 100% interest in the Sabodala Mining Company SARL "(SMC"), an exploration entity which holds the regional land package; all of the issued and outstanding shares of SGML (Capital) Limited; and 18,699,500 common shares of Oromin Exploration Ltd., originally held by MDL; were transferred to Teranga in consideration for the issuance of 200,000,000 common shares of Teranga to MDL (approximately 160,000,000 of such common shares were then in specie distributed to MDL's shareholders) and the assumption of a C$50 million promissory note owing to MDL. As the transaction was a common control transaction, the Company has elected to apply the 'pooling of interest' method to account for the demerger (see Note 4).

The table below represents the costs of assets and liabilities acquired by Teranga from MDL by way of Demerger:

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

As at	November 23, 2010	Restatement [1]	November 23, 2010 Restated
Current assets			
Cash and cash equivalents	14,924	-	14,924
Trade and other receivables	238,089	-	238,089
Inventories	82,842	(12,267)	70,575
Financial derivative assets	1,074	-	1,074
Other assets	2,688	-	2,688
Available for sale financial asset	21,109	-	21,109
Total current assets	**360,726**	**(12,267)**	**348,459**
Non-current assets			
Inventories	6,514	-	6,514
Mine development expenditure	112,710	-	112,710
Financial derivative assets	1,859	-	1,859
Intangible assets	367	-	367
Capitalized mine convention costs	10,133	-	10,133
Property, plant and equipment	209,023	8,427	217,450
Total non-current assets	**340,606**	**8,427**	**349,033**
Total assets	**701,332**	**(3,840)**	**697,492**
Current liabilities			
Trade and other payables	256,910	-	256,910
Borrowings	8,630	-	8,630
Financial derivative liabilities	37,078	-	37,078
Current tax liabilities	518	-	518
Provisions	1,696	-	1,696
Total current liabilities	**304,832**	**-**	**304,832**
Non-current liabilities			
Trade and other payables	1,657	-	1,657
Financial derivative liabilities	94,270	-	94,270
Deferred tax liabilities	231	-	231
Provisions	2,284	-	2,284
Borrowings	16,256	-	16,256
Total non-current liabilities	**114,698**	**-**	**114,698**
Total liabilities	**419,530**	**-**	**419,530**
Non-controlling interest	1,563	384	1,947
Net assets	**283,365**	**(3,456)**	**279,909**

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

Reconciliation of the value of shares issued on the acquisition of the Sabodala gold mine and a regional exploration package:

As at	November 23, 2010	Restatement [1]	November 23, 2010 Restated
Net assets acquired	283,365	(3,456)	279,909
Less deferred compensation (C$50 million)	(49,231)	-	(49,231)
Value of shares issued on acquisition	**234,134**	**(3,456)**	**230,678**

(1) During the preparation of the consolidated financial statements for the fifteen months ended December 31, 2011, the Company identified two changes required relating to the net assets acquired as part of the demerger from MDL on November 23, 2010. Property, plant and equipment was understated by $8.4 million related to accelerated depreciation of mobile equipment in excess of the Company's policy. Stockpile inventory was overstated by a total of $12.3 million due to accelerated depreciation related to mobile equipment and costs assigned to inventory in excess of net realizable value.

The restated net assets as at November 23, 2010 reflect a total decrease of $3.5 million after adjusting the non-controlling interest with a corresponding adjustment to the Company's share capital.

3. 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.

b. Basis of presentation

The consolidated financial statements have been 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. Change of Fiscal Year

On May 10, 2011, the Board of Directors passed a resolution setting the financial year end of the Company at December 31st. The Board felt this change would better synchronize its financial reporting with that of comparable companies within the mining sector as well as better align its financial reporting with its business planning cycle. The consolidated financial statements for the current year are for the twelve month period ended December 31, 2012, and for the fifteen month period ended December 31, 2011 for the comparative period. The amounts presented in the consolidated financial statements are not entirely comparable.

d. Change in presentation of gains and losses on hedge contracts

The Company has changed the presentation of gains and losses on gold and oil hedge contracts effective January 1, 2012. Realized gains and losses on gold hedge contracts are disclosed as losses on gold hedge contracts below gross profit, previously they were included in revenue. Gains and losses on oil hedge contracts are classified as gains and losses on oil hedge contracts below gross profit, previously they were included in cost of sales.

e. 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. The consolidated financial statements are presented in United States dollars, which is the Company's presentation currency.

The Company's corporate entity changed its functional currency from the Canadian dollar to the United States dollar as of January 1, 2012. Per IAS 21, the effects of changes in foreign exchange rates, an entity's functional currency should reflect the underlying transactions, events, and conditions relevant to the entity. Based on management's evaluation taking into consideration the currency of the main sources of income, intercompany charges, significant capital projects, source of funding of expenditures, the currency in which cash and cash deposits are maintained as well as the currency of corporate office expenditures, management determined the functional currency of the corporate entity to be the United States dollar. The change in functional currency has been accounted for prospectively.

f. 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 7 for critical judgments in applying the entity's accounting policies, and key sources of estimation uncertainty.

4. 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, Teranga Gold (USA) Corporation, Sabodala Gold (Mauritius) Limited, and SGML (Capital) Limited and its subsidiaries as defined in IAS 27 "Consolidated and Separate 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 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 the statement of comprehensive income/(loss).

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 amount of those interests 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 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. 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, incurred in converting materials into finished goods.

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.

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.

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

f. Property, Plant and Equipment

Property, plant and equipment is measured on the cost basis. Property, plant and equipment are measured on the 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 borrowing 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 the statement of comprehensive income/(loss) 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 held 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.

Depreciation is calculated using the following method:

Class of Property, Plant and Equipment	Method	Years
Buildings and property improvements	UOP	
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 - 7.0 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 the statement of comprehensive income/(loss).

Assets under finance lease

Assets held under finance leases are depreciated over their expected useful lives on the same basis as 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 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 borrowing 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. Where commercial production in an area of interest has commenced, the associated costs are amortized over the estimated economic life of the mine on a units-of-production basis.

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 the statement of comprehensive income/(loss).

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 the statement of comprehensive income/(loss).

k. Borrowing Costs

Borrowing 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 borrowing costs are recognized in the statement of comprehensive income/(loss) 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 they are 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 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, the 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 comprehensive income/(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 the statement of comprehensive income/(loss).

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 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 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 or 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/(loss).

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.

The Company enters into a variety of derivative financial instruments to manage its exposure to gold and oil price risk, including gold forward contracts and oil hedge contracts.

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 the statement of comprehensive income/(loss) 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.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

q. Share-based Payment

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

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 the statement of comprehensive income/(loss).

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 statement of comprehensive income/ (loss) and re-valued at the end of each reporting period based on the period end share price.

s. Revenue Recognition

Gold and silver bullion sales

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

- 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 on a time proportionate basis taking into account the effective yield on the financial assets.

t. Exploration and Evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are expensed in the consolidated statement of comprehensive income/(loss) 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 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 technical feasibility study is completed, subsequent exploration and development expenses are capitalized as mine development expenditures.

Upon reaching commercial production, these capitalized costs will be transferred from mine development expenditures to producing properties on the consolidated statement of financial position and will be amortized using the units-of-production method over the estimated ore reserves.

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 Venture Arrangements

Interests in jointly controlled assets in which the Company is a venturer and has joint control are included in the consolidated financial statements by recognizing 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.

The Company's interests in assets where the Company does not have joint control are accounted for in accordance with the substance of the Company's interest. Where such arrangements give rise to an undivided interest in the individual assets and liabilities of the joint venture, the Company recognizes its undivided interest in each asset and liability and classifies and presents those items according to their nature.

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 included within revenue.

5. CHANGE IN ACCOUNTING POLICIES

a. Exploration and evaluation expenditures expensed

With effect from October 1, 2010, exploration and evaluation expenditures in relation to each separate area of interest are expensed as exploration costs in the consolidated statement of comprehensive income/(loss) until the determination of the technical feasibility and the commercial viability of the project. Under MDL's previous policy, exploration and evaluation expenditures were recognized as an exploration and evaluation asset in the year in which they were incurred and assessed for impairment.

As a result of the change in the accounting policy, all exploration costs, including concession costs, in the total amount of $27.3 million existing before October 1, 2010 and capitalized to exploration assets were de-recognized and expensed through retained earnings. Management believes that the change in the accounting policy results in reliable and more relevant information. Had these exploration and evaluation expenditures been capitalized in the consolidated statement of financial position as at December 31, 2011, the impact on the basic and diluted EPS would have been a reduction of the loss per share of 15 cents.

b. Inventory valuation

Effective January 1, 2012, the Company changed the method of measuring and recording the cost of ore in stockpiles, gold in circuit and gold bullion inventory. The new policy measures and records the costs associated with ore in stockpiles, gold in circuit and gold bullion inventory based on recovered ounces of gold. Under the previous policy, ore in stockpiles, gold in circuit and gold bullion costs were measured and recorded based on tonnes processed. The new policy better matches revenue and expenses as compared to the former policy because it attaches higher costs to the higher grade ore and charges more costs to the statements of comprehensive income/(loss) during periods that higher grade ore is processed and sold. Management believes that the change in accounting policy for inventory valuation better matches the statements of comprehensive income/(loss) and provides a more reliable measurement of ore in stockpiles, gold in circuit and gold bullion inventory.

The change in accounting policy has been applied retroactively with restatement reducing the value of inventory acquired on November 23, 2010 by $22.7 million and increasing the value of inventory as at December 31, 2011 by $5.2 million.

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

c. Depreciation based on unit of production

In line with the change in the method of measuring and recording inventory, the Company changed its accounting policy regarding units of production depreciation effective January 1, 2012. Under the previous method, units of production property, plant and equipment were amortized over the life of mine tonnes processed. Under the new policy, depreciation is based on recovered ounces of gold. Management believes that the change in accounting policy better matches revenue and costs.

The change in accounting policy has been applied retroactively with restatement reducing the value of property, plant and equipment and mine development expenditures acquired on November 23, 2010 by $16.7 million and $9.8 million, respectively. The value of property, plant and equipment and mine development expenditures as at December 31, 2011 were further reduced by $1.3 million and $0.8 million, respectively.

The impact of the change in accounting policies on the value of net assets acquired as at November 23, 2010, the statement of financial position as at December 31, 2011, the statement of comprehensive income/(loss) for the fifteen months ended December 31, 2011 and the statement of cash flows as at December 31, 2011 is set out below:

Impact on Net Assets Acquired on November 23, 2010

	November 23, 2010 As previously reported	Impact of change in accounting policies	November 23, 2010 Restated
Current assets			
Inventories	70,575	(22,652)	47,923
Total current assets	**348,459**	**(22,652)**	**325,807**
Non-current assets			
Property, plant and equipment	217,450	(16,683)	200,767
Mine development expenditure	112,710	(9,767)	102,943
Total non-current assets	**349,033**	**(26,450)**	**322,583**
Total assets	**697,492**	**(49,102)**	**648,390**
Non-controlling interest	(1,947)	(5,089)	(7,036)
Net assets	**279,909**	**(44,013)**	**235,896**

	November 23, 2010 As previously reported	Impact of change in accounting policies	November 23, 2010 Restated
Net assets acquired	279,909	(44,013)	235,896
Less deferred compensation (C$50 million)	(49,231)	-	(49,231)
Value of shares issued on acquisition	**230,678**	**(44,013)**	**186,665**

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

Impact on Statement of Financial Position

	December 31, 2011 As previously reported	Impact of change in accounting policies	December 31, 2011 Restated
Current assets			
Inventories	46,927	1,438	48,365
Total current assets	**113,280**	**1,438**	**114,718**
Non-current assets			
Inventories	50,786	(18,844)	31,942
Property, plant and equipment	256,539	(18,029)	238,510
Mine development expenditure	100,359	(10,534)	89,825
Total non-current assets	**409,301**	**(47,407)**	**361,894**
Total assets	**522,581**	**(45,969)**	**476,612**
Equity			
Issued capital	349,425	(44,013)	305,412
Accumulated losses	(46,208)	2,833	(43,375)
Equity attributable to shareholders	**313,562**	**(41,180)**	**272,382**
Non-controlling interests	1,076	(4,789)	(3,713)
Total equity	**314,638**	**(45,969)**	**268,669**
Total equity and liabilities	**522,581**	**(45,969)**	**476,612**

Impact on Statement of Comprehensive Income/(Loss)

	Fifteen months ended December 31, 2011 as previously reported	Impact of change in accounting policies (Note 4)	Restatement (1)	Reclassifications (Note 2)	Fifteen months ended December 31, 2011 Restated
Revenue	187,141			49,732	236,873
Cost of sales	(151,033)	(2,418)	5,550	(911)	(148,812)
Gross profit	**36,108**	**(2,418)**	**5,550**	**48,821**	**88,061**
Administration expenses	(12,043)			(1,405)	(13,448)
Net change in realized and unrealized gains / (losses) on gold hedge contracts	1,789			(49,732)	(47,943)
Net change in realized and unrealized gains on oil hedge contracts	(113)			2,316	2,203
	(52,049)	**-**	**-**	**(48,821)**	**(100,870)**
Profit before income tax	**(15,941)**	**(2,418)**	**5,550**	**-**	**(12,809)**
Profit for the period	**(15,849)**	**(2,418)**	**5,550**	**-**	**(12,717)**
Total comprehensive income for the period	**(18,103)**	**(2,418)**	**5,550**	**-**	**(14,971)**
Profit attributable to:					
Shareholders	(18,872)	(2,193)	5,025		(16,040)
Non-controlling interests	3,023	(225)	525		3,323
Profit for the period	**(15,849)**	**(2,418)**	**5,550**	**-**	**(12,717)**
Total comprehensive profit attributable to:					-
Shareholders	(21,126)	(2,193)	5,025		(18,294)
Non-controlling interests	3,023	(225)	525		3,323

(1) In addition to the impact of the change in accounting policies and reclassifications, the consolidated statements of comprehensive income/(loss) for the year ended December 31, 2011 has been adjusted to reflect the impact of an adjustment recorded at the end of 2011 regarding the depreciation of mobile equipment.

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

Impact on Statement of Cash Flows

	Fifteen months ended December 31, 2011 As previously reported	Impact of change in accounting policies	Fifteen months ended December 31, 2011 Restated
Cash flows related to operating activities			
Profit/(Loss) for the period	(15,849)	3,132	(12,717)
Depreciation	28,195	1,346	29,541
Amortization of capitalized mine development costs	9,433	767	10,200
Changes in working capital	(29,120)	(3,928)	(33,048)
Net cash provided by operating activities	**3,815**	**1,317**	**5,132**
Cash flows related to financing activities			
Interest paid on borrowings	(931)	(1,317)	(2,248)
			-
Net cash used by financing activities	**116,579**	**(1,317)**	**115,262**

6. FUTURE ACCOUNTING POLICIES

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 characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

b. IFRS 10 – Consolidated financial statements

IFRS 10, "Consolidated financial statements" (IFRS 10) was issued by the IASB in May 2011 and will replace SIC 12, "Consolidation – Special purpose entities" and parts of IAS 27, "Consolidated and separate financial statements". Under the existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires an entity that controls one or more other entities to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company has evaluated the impact of IFRS 10 and has determined there is 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 will supersede 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. Venturers will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item on their financial statements. In addition, IFRS 11 will require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company has evaluated the impact of IFRS 11 and has determined there is no impact on its consolidated financial statements.

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 is effective for annual periods beginning on or after January 1, 2013. The Company has evaluated the impact of IFRS 12 and will apply the new disclosure requirements for its consolidated financial statements for the first quarter of 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 provides guidance on fair value in a single standard, replacing the existing guidance on measuring and disclosing fair value which is dispersed among several standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company has evaluated the impact of IFRS 13 and has determined there is no impact on its consolidated financial statements.

f. IAS 19 – Employee Benefits

IAS 19, "Employee Benefits" (IAS 19) was re-issued by the IASB in June 2011, which results in significant changes in accounting for defined benefit pension plans. There are also a number of other changes, including modification to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. Furthermore, the IASB sought to provide more targeted disclosure requirements that would highlight the relevant risks of defined benefit plans. IAS 19 must be applied starting January 1, 2013 with early adoption permitted. The Company has evaluated the impact of IAS 19 and has determined there is no impact on its consolidated financial statements.

g. IFRIC 20 - 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. IFRIC 20 must be applied starting January 1, 2013 with early adoption permitted. The Company has performed a preliminary assessment of the impact of adopting IFRIC 20 on its consolidated financial statements indicating that we will capitalize waste stripping costs, which are not permitted under our current accounting policy.

h. IAS 27 – Separate financial statements

IAS 27, "Separate financial statements" (IAS 27) was re-issued by the IASB in May 2011 to only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The consolidation guidance is now included in IFRS 10. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013. The Company has evaluated the impact of IAS 27 and has determined there is no impact on its consolidated financial statements.

i. IAS 28 – Investments in associates and joint ventures

IAS 28, "Investments in associates and joint ventures" (IAS 28) was re-issued by the IASB in May 2011. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013. The Company has evaluated the impact of IAS 28 and has determined there is no impact on its consolidated financial statements.

7. 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 Competent Persons with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves and Qualified Persons as defined in NI 43-101, 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, 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 the statement of comprehensive income/(loss).

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. 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 units of production 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, underground mine development or mineable reserve development. It is also at this point that depreciation/depletion commences.

Fair value of derivative financial instruments

Management assesses the fair value of Teranga's financial 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 financial 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.

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

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.

8. REVENUE

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Gold sales at spot price	349,871	236,232
Silver sales	649	641
Total revenue	**350,520**	**236,873**
Interest income from bank deposits and short-term investments	36	848
Total other income	**36**	**848**

For the year ended December 31, 2012, 207,814 ounces of gold were sold at an average price of $1,634 per ounces and for the fifteen months ended December 31, 2011, 153,728 ounces of gold were sold at an average price of $1,537 per ounces. Revenue excludes the impact of gold hedges as losses on ounces delivered into gold hedge contracts are classified within losses on gold hedge contracts.

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.

Including the impact of gold hedge losses, for the fifteen months ended December 31, 2011, 153,728 ounces of gold were sold at an average realized price of $1,213 per ounce, including 72,000 ounces delivered into gold hedge contracts at $846 per ounce, representing 47 percent of gold sales for the period, and 81,728 ounces of gold were sold into the spot market at an average price of $1,537 per ounce.

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

9. COST OF SALES

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Mine production costs	145,831	126,125
Depreciation and amortization	52,660	40,077
Royalties	10,491	7,035
Rehabilitation	36	9
Inventory movements	(29,695)	(24,434)
Total cost of sales	**179,323**	**148,812**

10. ADMINISTRATION EXPENSES

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Corporate office	9,719	7,658
Dakar office	754	1,064
Social community	1,558	1,405
Professional & consulting fees	1,912	1,820
Legal & other	3,988	1,501
Total administration expenses	**17,931**	**13,448**

11. FINANCE COSTS

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Interest on borrowings	4,516	1,317
Amortization of capitalized borrowing costs	877	328
Unwinding of discount	53	47
Political risk insurance	898	1,131
Stocking fee	578	-
Financial advisory services	427	-
Bank charges	440	123
Total finance costs	**7,789**	**2,946**

12. INCOME TAX

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Current income tax expense	(115)	139
Deferred income tax benefit on reversal of temporary differences	-	(231)
Total income tax benefit	**(115)**	**(92)**

The Company's income tax benefit differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to loss before income taxes as a result of the following:

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

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Statutory tax rates	26.5%	28.8%
Income tax benefit computed at statutory rates	24,902	(4,591)
Non-deductible items	1,244	-
Income not subject to tax	(37,528)	-
Difference betw een deferred and current rate	-	-
Unrecognized deferred tax assets	11,267	4,499
Other	-	-
Income tax benefit	**(115)**	**(92)**

Deferred income tax assets are recognized for tax loss carry-forwards, property, plant and equipment and the share issuance 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 $9,071,000 in respect of non-capital losses, property, plant and equipment and share issuance costs amounting to $34,230,000 that can be carried forward against future taxable income, and 808,000 in respect of capital loss amounting to $6,099,000 that can be carried forward against future taxable capital gains. The non-capital losses, property, plant and equipment and share issuance costs amounting to $34,230,000 will expire in the years 2030 to 2032, and the capital losses have no expiry date.

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 $147,137,000 at December 31, 2012.

13. TRADE AND OTHER RECEIVABLES

	December 31, 2012	December 31, 2011
Current		
Trade receivable (i)	5,268	17,120
Other receivables (ii)	1,214	3,327
Total trade and other receivables	**6,482**	**20,447**

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

(ii) Other receivables primarily include receivables from suppliers for services, materials and utilities used at the Sabodala gold mine that the Company provides to them. Also included are receivables from the settlement of oil hedge contracts.

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

14. INVENTORIES

	December 31, 2012	December 31, 2011
Current		
Gold bullion	4,615	2,509
Gold in circuit	9,193	2,970
Ore stockpile	30,736	18,087
Total gold inventories	**44,544**	**23,566**
Diesel fuel	3,242	1,371
Materials and supplies	30,703	21,687
Goods in transit	3,985	1,741
Total other inventories	**37,930**	**24,799**
Total current inventories	**82,474**	**48,365**
Non-Current		
Ore stockpile	40,659	31,942
Total inventories	**123,133**	**80,307**

15. FINANCIAL DERIVATIVE ASSETS

	December 31, 2012	December 31, 2011
Current		
Oil hedge contracts	456	2,288
Non-Current		
Oil hedge contracts	-	532
Total financial derivative assets	**456**	**2,820**

The Company has 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). At December 31, 2012, the remaining 20,000 barrels hedged have a mark-to-market value of $0.5 million at the reporting date spot price of $92 per barrel. At December 31, 2011, 100,000 barrels were hedged with a market value of $2.8 million at price of $99 per barrel.

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

16. OTHER ASSETS

	December 31, 2012	December 31, 2011
Current		
Prepayments (i)	11,396	11,251
Security deposit (ii)	1,500	1,500
Total other assets	**12,896**	**12,751**

(i) As at December 31, 2012, prepayments include $6.1 million of advances for the new mining fleet, $4.3 million of advances to vendors and contractors and $1.0 million for insurance. As at December 2011, prepayments include $7.9 million of advances for the new mining fleet, $3.4 million to other vendors and contractors and $0.8 million for insurance.

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

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

17. 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 (Note 4)
Cost							
Balance at October 1, 2010	-	-	-	-	-	-	**-**
Property, plant and equipment arising from demerger - Nov 23,	30,838	172,424	575	1,774	25,787	26,344	**257,742**
Additions	-	-	-	-	-	60,825	**60,825**
Capitalized mine rehabilitation	-	6,459	-	-	-	-	**6,459**
Transfer	1,378	11,514	704	707	16,308	(30,611)	**-**
Balance at December 31, 2011	**32,216**	**190,397**	**1,279**	**2,481**	**42,095**	**56,558**	**325,026**
Additions						45,282	**45,282**
Capitalized mine rehabilitation	-	109	-	-	-	-	**109**
Disposals		(748)		(227)			**(975)**
Transfer	12,237	85,922	525	832	322	(99,838)	**-**
Balance at December 31, 2012	**44,453**	**275,680**	**1,804**	**3,086**	**42,417**	**2,002**	**369,442**
Accumulated depreciation							
Balance at 1 October, 2010	-	-	-	-	-	-	-
Accumulated depreciation arising from demerger - Nov 23, 2010	4,102	25,853	399	913	9,025	-	**40,292**
Impact on accumulated depreciation arising from demerger (Note 5)	2,750	13,933	-	-	-	-	**16,683**
Impact on accumulated depreciation regarding fiscal year 2011 (Note 5)	216	1,130	-	-	-	-	**1,346**
Depreciation expense	2,701	15,973	272	466	8,783	-	**28,195**
Balance at December 31, 2011 (Note 3)	**9,769**	**56,889**	**671**	**1,379**	**17,808**	**-**	**86,516**
Disposals		(719)		(192)			**(911)**
Depreciation expense	4,635	27,843	340	648	8,533		**41,999**
Balance at December 31, 2012	**14,404**	**84,013**	**1,011**	**1,835**	**26,341**	**-**	**127,604**
Net book value							
Balance at December 31, 2011	**22,447**	**133,508**	**608**	**1,102**	**24,287**	**56,558**	**238,510**
Balance at December 31, 2012	**30,049**	**191,667**	**793**	**1,251**	**16,076**	**2,002**	**241,838**

Additions made to property, plant and equipment during year ended December 31, 2012 relate mainly to the mill expansion and additional mining equipment acquired.

Effective January 1, 2012, the Company has updated its estimate regarding the expected life of mine based on the proven and probable reserves at December 31, 2011 resulting in $6.1 million lower depreciation cost for property, plant and equipment depreciated using the unit of production method for the year ended December 31, 2012.

Depreciation of property, plant and equipment of $42 million and $30 million was expensed as cost of sales for the twelve and fifteen months ended December 31, 2012 and 2011, respectively.

The Company has property, plant and equipment that are fully amortized but still in use with a gross book value of $2.6 million.

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

18. MINE DEVELOPMENT EXPENDITURE

	Amount (Note 4)
Cost	
Balance at October 1, 2010	-
Mine development expenditure arising from demerger - Nov 23, 2010	127,336
Change in accounting policy (i)	(17,277)
Expenditures incurred during the period	14,359
Balance at December 31, 2011	**124,418**
Expenditures incurred during the period	30,377
Balance at December 31, 2012	**154,795**
Accumulated depreciation	
Balance at October 1, 2010	-
Accumulated depreciation arising from demerger - Nov 23, 2010	14,626
Impact on depreciation expense arising from demerger (Note 2)	9,767
Impact on depreciation expense for fiscal year 2011 (Note 2)	767
Depreciation expense	9,433
Balance at December 31, 2011	**34,593**
Depreciation expense	11,142
Balance at December 31, 2012	**45,735**
Carrying amount	
At December 31, 2011	**89,825**
Balance at December 31, 2012	**109,060**

(i) Change in accounting policy effective October 1, 2010

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

The capitalized mine development expenditures incurred during 2012 include $3.0 million relating 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.

Effective January 1, 2012, the Company has updated its estimate regarding the expected life of mine based on the proven and probable reserves at December 31, 2011 resulting in $6.5 million lower depreciation cost for mine development expenditure for the year ended December 31, 2012.

Depreciation of capitalized mine development of $11.1 million and $9.4 million were expensed as cost of sales for the twelve and fifteen months ended December 31, 2012 and 2011, respectively.

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

19. INTANGIBLE ASSETS

	Amount
Cost	
Balance at October 1, 2010	-
Intangible assets arising from demerger - Nov 23, 2010	707
Additions	1,208
Balance at December 31, 2011	**1,915**
Additions	1,424
Balance at December 31, 2012	**3,339**
Accumulated amortization	
Balance at October 1, 2010	-
Accumulated amortization arising from demerger - Nov 23, 2010	340
Amortization expense	490
Balance at December 31, 2011	**830**
Amortization expense	650
Balance at December 31, 2012	**1,480**
Carying amount	
At December 31, 2011	**1,085**
At December 31, 2012	**1,859**

Intangible assets represent intangible computer software. Amortization expense is included in the consolidated statement of comprehensive income/(loss) under administration expenses.

20. TRADE AND OTHER PAYABLES

	December 31, 2012	December 31, 2011
Current		
Unsecured liabilities:		
Trade payables (i)	16,446	18,860
Sundry creditors and accrued expenses	12,370	13,733
Government royalties (ii)	10,927	5,887
Amounts payable to Government of Senegal (iii)	5,080	4,758
Total trade and other payables	**44,823**	**43,238**

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

(ii) Government royalties are payable annually based on the mine head value of the gold and related substances produced.

(iii) $4 million to which an annual interest rate of 6% applies is payable to the Government of Senegal relating to the historical cost of acquiring the mine license. The balance was paid to the Government of Senegal in January 2013.

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

21. BORROWINGS

	December 31, 2012	December 31, 2011
Current		
Finance lease liabilities	10,506	16,799
Borrowing costs	(91)	(331)
Total current borrowings	**10,415**	**16,468**
Non-Current		
Loan facility	60,000	-
Finance lease liabilities	-	7,573
Borrowing costs	(1,807)	(64)
Total non-current borrowings	**58,193**	**7,509**
Total borrowings	**68,608**	**23,977**

Macquarie Loan Facility

During the second quarter of 2012, the Company entered into a $60 million 2-year loan facility with Macquarie Bank Limited by way of an amendment to its existing Facility Agreement. The loan facility bears interest of LIBOR plus a margin of 10 percent and shall be repaid on or before June 30, 2014.

All of the obligations under the loan facility continue due to the gold hedging contracts and oil hedge currently outstanding. The security package includes: (i) a fixed and floating charge in respect of all assets of Teranga BVI; (ii) a share mortgage in respect of all shares held by Teranga in Teranga BVI; (iii) a share mortgage over Teranga's shares in SGML; (iv) a share pledge over shares in SGO held by SGML and nominated directors of Teranga and over shares in SMC held by SGML; (v) a fixed and floating charge over all assets of SGML (other than SGML's shares in SMC); (vi) a fixed and floating charge over all SGML's assets located outside of Mauritius; (vii) a fixed and floating charge over all assets of SGO held outside of Senegal; (viii) a mortgage of the Sabodala mining concession and certain real property in Senegal and a pledge over all SGO's assets in Senegal; (ix) an assignment by way of security of SGO's interest in project documents including the Sabodala mining concession and the mining convention; and (x) a pledge agreement in respect of balances of local banking accounts held by SGO in Senegal.

Société Générale Equipment Lease Facility

During the year ended December 31, 2011, the Company expanded the mobile equipment finance lease loan with Société Générale by an additional $12.8 million. The facility contains a quarterly repayment schedule concluding with the final payment on September 30, 2013. The facility is fully drawn down to $10.5 million and repayable in 2013.

The security package includes: (i) a guarantee issued by SGO to Société Générale of up to $50,000,000; (ii) a share mortgage over all shares in SGML Capital held by Teranga; and (iii) a fixed and floating charge over all the assets of SGML Capital.

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

22. FINANCIAL DERIVATIVE LIABILITIES

	December 31, 2012	December 31, 2011
Gold hedge contracts	**51,548**	**129,559**
Disclosed as:		
Current	51,548	79,241
Non-current	-	50,318
Total financial derivative liabilities	**51,548**	**129,559**

At December 31, 2012, the hedge position comprised 59,789 ounces of forward sales at an average price of $803 per ounce. At December 31, 2012, the mark-to-market gold hedge position at the year-end spot price of $1,664 per ounce was in a liability position of $51.5 million. At December 31, 2011, the hedge position comprised 174,500 ounce of forward sales at an average $826 per ounce. At December 31, 2011, the mark-to-market gold hedge position at the period end spot price of $1,566 per ounce was in a liability position of $129.6 million.

During the second quarter of 2012, the Company bought back certain “out of the money” gold forward sales contracts scheduled for delivery in 2012 totalling 52,105 ounces.

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

23. PROVISIONS

	December 31, 2012	December 31, 2011
Current		
Employee benefits (i)	1,940	1,954
Total current provisions	**1,940**	**1,954**
Non-Current		
Mine restoration and rehabilitation (ii)	9,377	9,215
Cash settled share based compensation (iii)	935	-
Total non-current provisions	**10,312**	**9,215**
Total provisions	**12,252**	**11,169**

(i) The provisions for employee benefits include $1.4 million accrued vacation and $0.5 million long service leave entitlements for December 31, 2012. The provision for December 31, 2011 included $1.6 million accrued vacation and $0.4 million long service leave entitlements.

(ii) 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 (expected completion is 2019) but a limited amount of concurrent rehabilitation will occur throughout the mine life.

	Amount
Transfer of provision from demerger - November 23, 2010	2,284
Additional provisions recognized	425
Capitalized mine rehabilitation	6,459
Unwinding of discount	47
Balance at December 31, 2011	**9,215**
Capitalized mine rehabilitation	109
Unwinding of discount	53
Balance at December 31, 2012	**9,377**

(iii) 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).

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

24. ISSUED CAPITAL

	Number of shares	Amount (Note 4)
Common shares issued and outstanding		
Balance at October 1, 2010	-	-
Shares issued on incorporation of the Company	100	-
Shares issued from initial public offering	45,617,900	135,005
Less: Share issue costs	-	(16,258)
Shares issued on demerger (Note 2)	200,000,000	186,665
Balance at December 31, 2011	**245,618,000**	**305,412**
Balance at December 31, 2012	**245,618,000**	**305,412**

On November 23, 2010, Teranga completed the acquisition of the Sabodala gold mine and a regional exploration package by way of Demerger from MDL. As part of the Demerger, all of the issued and outstanding shares of Sabodala Gold (Mauritius) Limited, which holds a 90% interest in the Sabodala Gold Operations SA ("SGO"), which owns the Sabodala gold mine, and a 100% interest in the Sabodala Mining Company SARL, an exploration entity, all of the issued and outstanding shares of SGML (Capital) Limited and 18,699,500 common shares of Oromin, originally held by MDL, were transferred to Teranga in consideration for the issuance of 200,000,000 common shares to MDL and C$50 million in satisfaction of a promissory note owing to MDL.

On December 7, 2010 the Company completed initial public offerings in Canada and Australia. In Canada, after the exercise of the over-allotment option, a total of 36,617,900 common shares were issued for gross proceeds of C$109.9 million. In Australia, 9,000,000 common shares were issued for gross proceeds of A$26.7 million. The share issuance costs related to the public offerings were $16.3 million.

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.

25. 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 Exploration Limited ("OLE"), classified as available for sale in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

At the end of the second quarter of 2012, OLE shares traded 56 percent lower than the share price at the date of acquisition and 50 percent lower than at the beginning of 2012. As a result of the significant and prolonged decline in the share price, the Company recognized a non-cash impairment loss of $11.9 million on the OLE shares.

In the third and fourth quarters of 2012, OLE shares appreciated in value and gains of $3.4 million and $2.1 million, respectively, were recorded in Other Comprehensive Income/(loss).

For the twelve months ended December 31, 2012, a gain of $6.8 million, net of tax of $nil was recognized in Other Comprehensive Income/(loss) for the change in fair value of available for sale financial assets, which includes the reclassification of $5.2 million to impairment of available for sale financial assets. For the fifteen months ended December 31, 2011, a loss of $1.3, net of tax of $nil was recognized.

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

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

	Amount
Balance at October 1, 2010	**-**
Acquisition of OLE arising from demerger - Nov 23, 2010	21,109
Change in fair value during the period	(1,319)
Foreign exchange gain	10
Balance at December 31, 2011	**19,800**
Change in fair value of available for sale financial asset during period	(3,927)
Foreign exchange gain	440
Balance at March 31, 2012	**16,313**
Change in fair value of available for sale financial asset during period	(6,671)
Foreign exchange loss	(339)
Balance at June 30, 2012	**9,303**
Change in fair value of available for sale financial asset during period	3,407
Foreign exchange gain	405
Balance at September 30, 2012	**13,115**
Change in fair value of available for sale financial asset during period	2,049
Foreign exchange loss	(154)
Balance at December 31, 2012	**15,010**

26. RESERVE

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 balance 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.

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

27. EARNINGS/(LOSS) PER SHARE ((EPS/(LPS))

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Basic EPS/(LPS) (US$)	0.33	(0.07)
Diluted EPS/(LPS) (US$)	0.33	(0.07)
Basic EPS/(LPS):		
Net profit/(loss) used in the calculation of basic EPS/(LPS)	79,924	(16,040)
Weighted average number of common shares for the purposes of basic EPS/(LPS) ('000)	245,618	245,618
Weighted average number of common shares for the purpose of diluted EPS/(LPS) ('000)	245,618	245,618

The determination of weighted average number of common shares for the purpose of diluted EPS/(LPS) excludes 17 million and 18 million shares relating to share options that were anti-dilutive for the periods ended December 31, 2012 and 2011, respectively.

28. DIVIDENDS

During the twelve and fifteen months ended December 31, 2012 and 2011, respectively, no dividends were paid.

29. COMMITMENTS FOR EXPENDITURE

a. Capital Expenditure Commitments

	December 31, 2012
Sabodala Gold Mine - expansion	600
Mining equipment	7,300
Total payments due within one year	**7,900**

b. Exploration Commitments

The Company has committed to spend a total of $2.3 million over the next year in respect of the Sabodala regional exploration program.

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

c. 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 3% 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

d. Letter of credit

As at December 31, 2012, SGO had a letter of credit of $1.5 million outstanding as a requirement by a third party supplier for purchases made by the Company.

30. LEASES

a. Operating Lease Commitments

The Company has entered into an agreement to lease premises until February 28, 2019. The annual rent of premises consists of minimum rent plus realty taxes, maintenance and utilities. In accordance with the lease agreement the amount of $387,000 is payable within a year, and remaining $2,062,000 is payable from 2014 to 2019.

During the period ended December 31, 2011, the Company entered into an agreement to lease an office space in Dakar, Senegal expiring April 30, 2014 with an option to renew for an additional three years. In accordance with the lease agreement the amount of $109,000 is payable within a year and remaining $36,000 payable in 2014.

The Company recognized $0.5 million and $0.4 million as rental expense in the statement of comprehensive income/(loss) for the twelve and fifteen months ended December 31, 2012 and 2011, respectively.

b. Finance Lease Liabilities

	December 31, 2012		December 31, 2011	
	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	10,506	10,415	16,799	16,468
Later than one year and not later than five years	-	-	7,573	7,509
Total finance lease liabilities	**10,506**	**10,415**	**24,372**	**23,977**
Included in the financial statements as:				
Current	10,506	10,415	16,799	16,468
Non-current	-	-	7,573	7,509

The finance loan relates to the Mining Fleet Sublease with a remaining lease term of nine months expiring September, 2013. Minimum future lease payments consist of three 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.

31. CONTINGENT LIABILITIES

The Company confirmed directly or via its holding subsidiaries that it will continue to provide financial support to its subsidiaries to enable them to meet their obligations as they fall due for a period of not less than 12 months.

Subsequent to year-end in January 2013, Sabodala Mining Company SARL ("SMC") received a tax assessment from the Senegalese tax authorities of approximately $6 million (including penalties) claiming withholding tax on payments made to foreign service providers. We have reviewed the assessment with our legal counsel and are confident that they are primarily without merit. This matter is still being reviewed and considered with the Tax authorities in Senegal and Teranga is committed to paying all taxes deemed legitimately due. SMC responded to the tax assessment in February 2013 challenging all of it except for approximately $50,000 relating to withholding taxes on payments made in 2008.

In December 2012, Sabodala Gold Operations SA ("SGO") received a tax assessment from the Senegalese tax authorities claiming withholding taxes of approximately $6 million on amounts considered as distributions, contribution of land built properties, withholding tax on salaries, withholding tax on payments made to foreign providers and special contributions on mining products. SGO responded to the tax assessment including evidence supporting treatment of withholding taxes in accordance with the General Tax Code in Senegal. We have reviewed the assessment with our legal counsel and are confident that they are without merit and that these issues will be resolved with no or an immaterial amount of tax due.

In January 2012, the Official Journal of the Republic of Senegal issued notice of a new financial act that would impose a 5 percent "contribution" on the sale of products from mines and quarries. In April SGO received an official request by the tax authorities in Senegal, followed by a follow-up request in May for payment of 5 percent of gold sales completed in March pursuant to this new financial act. SGO has challenged the assessment under this new 5 percent tax citing the fiscal stability provisions included in its Sabodala Mining Convention, based on the opinions received from both national and international counsel. During the fourth quarter of 2012, the Government of Senegal issued a second assessment relating to gold sales during the second quarter. Should this issue not be resolved with the Government of Senegal, we can appeal the government's decision to apply the tax to the International Chamber of Commerce of Paris pursuant to our rights under our Sabodala Mining Convention. During 2012, the Government of Senegal began enforcement measures against all mining companies impacted by this new tax on mining products. The Government of Senegal has collected a total of $850,000 from the Company in partial satisfaction of amounts assessed to June 30, 2012. The potential impact to the Company's earnings and total cash costs per ounce is approximately $11.6 million and $60 per ounce of gold sold, respectively for the year ended December 31, 2012. The Company's Consolidated Statement of Comprehensive Income/(Loss) do not reflect this potential impact as management believes that the special contribution tax should not apply to SGO given the fiscal stability provision in its mining convention. The Company continues to challenge the validity of the application of this tax to Sabodala Gold Operations given fiscal stability protections in its Mining Convention and anticipates that a resolution of the matter will be reached with the Government in due course.

During the year 2011, SGO received a tax assessment from the Senegalese tax authorities claiming withholding taxes of approximately $24 million relating to interest paid to SGML Capital under the Mining Fleet Lease facility, director's fees and services rendered by offshore companies. SGO responded to the tax assessment including evidence supporting treatment of withholding taxes in accordance with the General Tax Code in Senegal. In January 2012 the tax assessment was re-confirmed by the Senegalese tax authorities. We have reviewed the alleged breaches identified by the Senegalese tax authorities with our legal counsel and are confident that they are without merit and that these issues will be resolved with no or an immaterial amount of tax due. As a result, in February 2012 SGO filed a notice to refer the tax assessment to arbitration in accordance with Senegalese laws. The arbitration ruling is appealable to International Chamber of Commerce of Paris. To date, Senegalese authorities have failed to respond to our requests for a resolution on this matter.

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

32. EXPLORATION LICENCES AND JOINTLY CONTROLLED OPERATIONS AND ASSETS

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

Name of venture	Principal activity	Interest 2012 %
Dembala Berola	Gold exploration	100
Massakounda	Gold exploration	100
Senegal Nominees JV – Bransan	Gold exploration	70
NAFPEC JV – Makana	Gold exploration	80
AXMIN JV – Sabodala NW (i)	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
Garaboureya North	Gold exploration	75

(i) 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 29.

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

33. CONTROLLED ENTITIES

	Country of Incorporation	Percentage owned 2012
Controlled entities consolidated		
Teranga Gold B.V.I. (i)	B.V.I.	100
Teranga Gold (USA) Corporation	USA	100
Sabodala Gold (Mauritius) Limited (ii)	Mauritius	100
SGML (Capital) Limited	Mauritius	100
Subsidiaries of Sabodala Gold (Mauritius) Limited:		
Sabodala Mining Company SARL (ii)	Senegal	100
Sabodala Gold Operations SA (iii)	Senegal	90

(i) 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.

(ii) 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%) 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 (4 of which are also directors of SGML) were issued one share each for a total of 0.5% in SGO with the other 89.5% 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% shareholding according to the circumstances at the time.

(iii) Under the terms of the SGO project finance facility, SGML and SGO have pledged their shares in favour of Macquarie Bank Limited as security.

34. CASH FLOW INFORMATION

a. Reconciliation of cash and cash equivalents

Cash at the end of the reporting period as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

	December 31, 2012	December 31, 2011
Cash at bank	39,722	5,780
Short-term investments with maturity less than 90 days	-	1,690
Total cash and cash equivalents	**39,722**	**7,470**

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

b. Reconciliation of change in working capital

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Changes in working capital		
Decrease/(increase) in trade and other receivables	13,965	(18,707)
Decrease/(increase) in other assets	5,915	(10,062)
Increase in inventories	(42,826)	(25,869)
Increase in trade and other payables	5,660	21,332
Increase in provisions	1,030	258
Net increase in working capital	**(16,256)**	**(33,048)**

c. Cash balances restricted for use

During the second quarter of 2012, the Company amended its existing Facility Agreement with Macquarie Bank Limited. As part of the amendment, Macquarie Bank Limited has agreed to recognize Project Completion as occurring and to remove the requirement to hold the restricted cash. As at December 31, 2012, the Company had no restrictions on cash balances (2011 - $3.0 million)

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 losses. The Company is not subject to any externally imposed capital requirements.

Management believes that the cash and cash equivalents at December 31, 2012, together with expected future cash flows from operations is sufficient to support the Company's liquidity requirements.

The leverage ratio as at December 31, 2012 was as follows:

	December 31, 2012	December 31, 2011
Borrowings	(68,608)	(23,977)
Cash and cash equivalents	39,722	7,470
Short-term investments	-	593
Net cash	**(28,886)**	**(15,914)**
Equity attributable to the shareholders	**362,777**	**272,382**
Net cash to equity ratio	**-8%**	**-6%**

b. Categories of financial instruments

As at December 31, 2012 and 2011, 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.

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

The following table illustrates the classification of the Company's financial instruments as at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Financial assets:		
Loans and receivables		
Cash and cash equivalents	39,722	7,470
Restricted cash	-	3,004
Short-term investments	-	593
Trade and other receivable	6,482	20,447
Assets at fair value through profit or loss		
Financial derivative assets	456	2,820
Available-for-sale		
Available-for-sale financial assets	15,010	19,800
Financial liabilities:		
Other financial liabilities at amortized cost		
Borrowings	68,608	23,977
Trade and other payables	44,823	43,238
Liabilities at fair value through profit and loss		
Financial derivative liabilities	51,548	129,559

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. As part of the risk management policy the Company has entered into gold forward sales contracts and oil hedge contracts to reduce exposure to unpredictable market fluctuations. The Company has elected not to apply hedge accounting for these instruments.

Derivative financial instruments

	December 31, 2012	December 31, 2011
Financial derivative assets:		
Oil hedge contracts	**456**	**2,820**
Disclosed as:		
Current	456	2,288
Non-current	-	532
Financial derivative liabilities:		
Gold flat forward contracts	**51,548**	**129,559**
Disclosed as:		
Current	51,548	79,241
Non-current	-	50,318

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

Gold forward contracts and oil hedge contracts

	December 31, 2012 Gold Forward Contracts			December 31, 2012 Oil Hedge Contracts		
	Ounces	US$/ounce	Fair Value	BBL	US$/BBL	Fair Value
Within 1 year	59,789	803	51,548	20,000	70	456
Between 1 and 2 years	-	-	-	-	-	-
Total	**59,789**	**803**	**51,548**	**20,000**	**70**	**456**

	December 31, 2011 Gold Forward Contracts			December 31, 2011 Oil Hedge Contracts		
	Ounces	$/ounce	Fair Value	BBL	$/BBL	Fair Value
Within 1 year	108,500	837	79,241	80,000	70	2,288
Between 1 and 2 years	66,000	807	50,318	20,000	70	532
Total	**174,500**	**826**	**129,559**	**100,000**	**70**	**2,820**

At December 31, 2012, the gold spot price was $1,644 per ounce and the oil price was $92 per barrel.

As the Company has elected not to adopt hedge accounting, movements in the fair value of these contracts are accounted for through the statement of comprehensive income/(loss).

Sensitivity analysis

The following table summarizes the sensitivity of financial assets and financial liabilities held at reporting date to movement in gold and oil commodity rates, with all other variables held constant. A 10% movement for gold and oil rates represents management's assessment of the reasonably possible change.

	Financial Assets		Financial Liabilities	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Gold forward contracts				
Profit or loss	-	-	9,934	27,289
Other equity	-	-	-	-
Oil hedge contracts				
Profit or loss	186	978	-	-
Other equity	-	-	-	-

d. Foreign currency risk management

The Company has certain financial instruments denominated 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, CAD, AUD, EUR 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.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities that are denominated in a currency other than the functional currency is as follows:

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

	Financial Assets		Financial Liabilities	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
CAD	483	2,627	2,398	2,204
CFA Franc (XOF)	2,349	4,494	30,672	23,118
AUD	213	837	898	3,809
EUR	1,486	189	3,714	6,357
Other	250	963	118	1,449

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% change in the functional currency rates. A negative number indicates a decrease in profit or equity where the functional currency strengthens 10% against the relevant currency for monetary assets and where the functional currency weakens against the relevant currency for monetary liabilities. For a 10% weakening of USD against the relevant currency for monetary assets and a 10% 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, 2012	December 31, 2011	December 31, 2012	December 31, 2011
CFA Franc (XOF) Impact				
Profit or loss	235	449	3,067	2,312
Other equity	-	-	-	-
EUR Impact				
Profit or loss	149	19	371	636
Other equity	-	-	-	-
CAD Impact				
Profit or loss	48	263	240	220
Other equity	-	-	-	-
AUD Impact				
Profit or loss	21	84	90	381
Other equity	-	-	-	-

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 instrument 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, 2012 and 2011.

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

	December 31, 2012	December 31, 2011
Financial assets		
Cash and cash equivalents	39,722	7,470
Short-term investments	-	593
Restricted cash	-	3,004
Total	**39,722**	**11,067**
Financial liabilities		
Borrowings	68,608	23,977
Total	**(28,886)**	**(12,910)**

The Company's interest rate on its borrowings is calculated at LIBOR plus 3 percent, 4.25 percent or 10 percent margin.

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, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Profit or loss	131	279	312	107
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 with Canadian banks. The Company has adopted a strategy to minimize its credit risk by substantially investing in sovereign debt issued by Canadian Agencies, Provinces and the Federal Governments of Canada.

The Company does not have significant credit risk exposure on accounts receivable as all gold sales are executed through Macquarie Bank, an AAA rated bank. Gold production is either delivered into forward sales contracts with Macquarie or 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 bank and in sovereign debt issued by Canadian Agencies, Provinces and the Federal Governments of Canada.

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

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 %	Due on demand	Due one to three months	Due between three months to one year	Due one to five years
Financial Liabilities					
December 31, 2012					
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 (i)	-	-	15,702	35,846	-
Total		**33,897**	**20,235**	**52,745**	**60,000**
December 31, 2011					
Non-interest bearing	-	33,742	-	5,887	-
Variable interest rate instruments	3.37%	-	2,800	13,999	7,573
Fixed interest rate instruments	6.00%	-	2,707	902	-
Derivatives (i)	-	-	-	79,241	50,318
Total		**33,742**	**5,507**	**100,029**	**57,891**

	Weighted average effective interest rate %	Due on demand	Due one to three months	Due between three months to one year	Due one to five years
Financial Assets					
December 31, 2012					
Non-interest bearing	-	6,482	-	-	-
Derivatives (ii)	-	-	456	-	-
Total		**6,482**	**456**	**-**	**-**
December 31, 2011					
Non-interest bearing	-	20,447	-	-	-
Derivatives (ii)	-	-	584	1,704	532
Total		**20,447**	**584**	**1,704**	**532**

(i) Expected to be settled through delivery of gold.
(ii) 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.

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

h. Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of derivative instruments are calculated using quoted prices and option pricing models.

Management considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements approximate their fair value for the Company, as they represent short-term trade amounts.

Fair value hierarchy

The Company values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices 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 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			
	Level 1	Level 2	Level 3	Total
December 31, 2012				
Available-for-sale financial assets	15,010	-	-	**15,010**
Derivative financial assets	-	456	-	**456**
Total	**15,010**	**456**	-	**15,466**
December 31, 2011				
Available-for-sale financial assets	19,800	-	-	**19,800**
Derivative financial assets	-	2,820	-	**2,820**
Total	**19,800**	**2,820**	-	**22,620**

	Financial liabilities			
	Level 1	Level 2	Level 3	Total
December 31, 2012				
Derivative financial liabilities	-	51,548	-	**51,548**
Total	-	**51,548**	-	**51,548**
December 31, 2011				
Derivative financial liabilities	-	129,559	-	**129,559**
Total	-	**129,559**	-	**129,559**

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

36. SHARE BASED COMPENSATION

During the third quarter of 2012, the Company introduced a new Fixed Bonus Plan as an alternative to the Company's existing share based compensation program. Directors, officers, employees and consultants are entitled to receive either stock options under the current Stock Option Plan or Fixed Bonus Plan Units under the new Fixed Bonus Plan.

The share based compensation expense for the twelve and fifteen months ended December 31, 2012 and 2011 totalled $4.7 million and $12.4 million, respectively.

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 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 of 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 twelve and fifteen months ended December 31, 2012 and 2011, a total of 3,580,000 and 17,980,000 common share options respectively were granted to directors and employees. During the twelve and fifteen months ended December 31, 2012 and 2011, a total of 4,058,055 and 362,778 options were forfeited, respectively. No stock options were exercised during the twelve and fifteen months ended December 31, 2012 and 2011.

The following stock options were outstanding as at December 31, 2012:

Option series	Number	Grant date	Expiry date	Exercise price (C$)	FV at grant date (C$)
Granted on November 26, 2010	8,513,334	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	113,889	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	370,000	13-Aug-11	13-Aug-21	3.00	0.82
Granted on December 20, 2011	1,792,778	20-Dec-11	20-Dec-21	3.00	0.61
Granted on February 24, 2012	934,166	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

As at December 31, 2012, approximately 7.4 million (2011 - 7 million) options were available for issuance under the Plan.

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

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 17,139,167 common share options issued 16,964,167 vest evenly over a three-year period 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.

As at December 31, 2012 all outstanding share options have a contractual life of ten years.

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:

	Twelve months ended December 31, 2012	**Fifteen months ended December 31, 2011**
Grant date share price	C$2.10-C$2.58	C$2.14-C$3.00
Exercise price	C$3.00	C$3.00
Range of risk-free interest rate	0.99%-1.43%	1.01%-2.22%
Volatility of the expected market price of share	43.70%-61.62%	53%
Expected life of options	1.25-5.00	3.44
Dividend yield	0%	0%
Forfeiture rate	0%-30%	6.39%

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.

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

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 beginning of the period - October 1, 2010	**-**	**-**
Granted during the period	17,980,000	C$3.00
Forfeited during the period	(362,778)	C$3.00
Exercised during the period	-	-
Expired during the period	-	-
Balance at end of the period - December 31, 2011	**17,617,222**	**C$3.00**
Granted during the period	3,580,000	C$3.00
Forfeited during the period	(4,058,055)	C$3.00
Exercised during the period	-	-
Expired during the period	-	-
Balance at end of the period - December 31, 2012	**17,139,167**	**C$3.00**
Number of options exercisable - December 31, 2011	5,133,604	
Number of options exercisable - December 31, 2012	10,736,662	

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 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 Toronto Stock Exchange ("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 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 ten 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, 2012 a total of 1,440,000 Units were granted to employees. During 2012, no Units were forfeited or exercised.

As at December 31, 2012, 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, 2012 in the range of C$0.23 to C$1.03 per Unit.

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

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

Fair value of Units granted

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

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Share price at the end of the period	$2.26	-
Exercise price	C$3.00	-
Range of risk-free interest rate	1.13-1.38%	-
Volatility of the expected market price of share	43.70%-61.62%	-
Expected life of options	1.25-5.00	-
Dividend yield	0%	-
Forfeiture rate	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:

	Twelve months ended December 31, 2012	Fifteen months ended December 31, 2011
Republic of Senegal – revenue from gold and silver sales	350,520	236,873
Republic of Senegal – Other revenue	31	39
Mauritius	-	-
Canada	5	809
Total	**350,556**	**237,721**

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

	December 31, 2012	December 31, 2011 (Note 4)
Republic of Senegal	391,638	356,731
Mauritius	-	4,088
Canada	1,778	1,075
Total	**393,416**	**361,894**

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

Information about major customers

Gold sales revenue from one customer for the twelve and fifteen months ended December 31, 2012 and 2011 were $351 million and $237 million, respectively.

38. KEY MANAGEMENT PERSONNEL COMPENSATION

The Company considers key members of management to include the Executive Chairman, President and CEO, Non-executive Director's, Vice Presidents and the General Manager and Government Relations Manager of SGO.

The remuneration of the key members of management includes 15 members during the twelve months ended December 31, 2012 and 13 members during the fifteen months ended December 31, 2011. The remuneration during the twelve and fifteen months ended December 31, 2012 and 2011 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	Options	Total
For the twelve months ended December 31, 2012						
Compensation	3,556	68	1,152	898	2,684	**8,358**
For fifteen months ended December 31, 2011						
Compensation	3,567	21	435	-	8,729	**12,752**

39. RELATED PARTY TRANSACTIONS

a. Equity interests in related parties

Details of percentages of ordinary shares held in subsidiaries are disclosed in Note 33.

b. Transactions with key management personnel

Details of key management personnel compensation are disclosed in Notes 38.

No loans were made to directors or director-related entities during the period.

c. Transactions with other related parties

The Company has no payable to or receivable from other related parties as at December 31, 2012 and 2011.

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors on February 20, 2013.