



**Years ended December 31, 2013 and 2012**

*(Expressed in Thousands of United States Dollars)*

**ENDEAVOUR MINING CORPORATION**  
**Management's Discussion and Analysis of**  
**Results of Operations and Financial Condition**  
**For the Three months and Year ended December 31, 2013**

*This Management's Discussion and Analysis should be read in conjunction with Endeavour Mining Corporation's ("Endeavour" or the "Corporation") audited consolidated financial statements for the years ended December 31, 2013 and 2012 and related notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board. This Management's Discussion and Analysis contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. The reader is cautioned not to place undue reliance on forward-looking statements. All figures are in United States Dollars, unless otherwise indicated. Tabular amounts are in thousands of United States Dollars, except per share amounts. This Management's Discussion and Analysis is prepared as of March 18, 2014. Additional information relating to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

## **OVERVIEW**

Endeavour is a gold mining company producing over 400,000 ounces per year from four mines in West Africa. Endeavour is focused on effectively managing its existing assets to maximize cash flow as well as pursuing organic and strategic growth opportunities that benefit from its management and operational expertise.

At December 31, 2013, Endeavour's producing gold mining properties were comprised of the Nzema gold mine in Ghana, the Youga gold mine in Burkina Faso, the Tabakoto gold mine in Mali and the Agbaou gold mine in Côte d'Ivoire. The Agbaou mine was completed during the fourth quarter of 2013 with its first gold pour on November 29, 2013 and with commercial production declared on January 27, 2014 (the date of the official mine opening). The Corporation's most significant development project at December 31, 2013 is the Houndé project in Burkina Faso, for which results of a feasibility study ("Feasibility Study") were filed on [www.sedar.com](http://www.sedar.com) on December 2, 2013.

Despite the decline in the gold price in 2013, Endeavour has had a successful year of achieving its key milestones that were set at the start of the year. Endeavour completed the Tabakoto mill expansion and doubled throughput, completed the construction of Agbaou ahead of schedule, brought the Houndé project to completion of the feasibility study and submitted for permitting, closed a \$350 million debt re-financing during a very difficult period for the gold market and met group guidance for production and all-in sustaining costs ("AISC").

Endeavour is expanding its production significantly in 2014 (gold production guidance is 400,000 to 440,000 ounces at an all-in sustaining cost of between \$985 and \$1,070 per ounce) through the following:

- Construction of the Agbaou gold mine was completed under-budget with the first gold pour on November 29, 2013, well ahead of the original first quarter 2014 schedule. A mining convention was signed (with a strong stability clause outlining fiscal conditions) and commercial production was declared on January 27, 2014. The mine is forecast to produce between 85,000 and 95,000 ounces of gold in 2014 and has started the year with two months of above budget production; and
- Transition of the Tabakoto gold mine to owner-mining will reduce costs in 2014 and the 2013 mill expansion has increased the mill processing rate from 2,000 to 4,000 tonnes per day ("tpd"). The increased throughput is expected to increase the annual production rate from just over 100,000 ounces to approximately 150,000 ounces of gold per year. The mill has been operating above the 4,000 tpd nameplate capacity and management has been using the excess capacity to process historical, lower grade stockpiles to maximize ounces produced and cash flows with the resulting temporary increase in cash costs until full tonnage, higher grade production ore from Segala is available during the second quarter of 2014.

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**OVERVIEW (CONTINUED)**

Endeavour's shares are listed on the Toronto Stock Exchange ("TSX") (symbol EDV) and the Australian Securities Exchange (symbol EVR).

On October 18, 2012 Endeavour acquired Avion Gold Corporation ("Avion"), which owned the Tabakoto gold mine in Mali, ("Tabakoto" or the "Tabakoto gold mine"). As a result, Endeavour's comparative operational and financial results for the three months and year ended December 31, 2012 do not include the operating results from Tabakoto.



Figure 1: Endeavour's West African mines and Houndé feasibility study project.

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**OPERATIONAL HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2013**

- Gold production increased to 324,275 ounces (includes 6,132 ounces of pre-commercial gold production at the Agbaou mine during November and December 2013) compared to guidance of 315,000 to 330,000 ounces for the full year 2013. The 324,275 ounces is a 47% increase compared to the full year 2012 production of 220,462 ounces due to the full year inclusion of Tabakoto in 2013 and the completion of the Tabakoto mill expansion during the second quarter of 2013.
- Gold sales increased to 318,505 ounces for the full year 2013 compared to 218,887 ounces for the full year 2012.
- Total cash costs<sup>1</sup> (excluding royalties) per gold ounce produced for the full year 2013 were \$886 compared to \$767 for the full year 2012. The full year 2013 includes Tabakoto, however for the comparative 2012 year only the period October 18, 2012 to December 31, 2012 is included.
- All-in sustaining costs per gold ounce sold were \$1,099 compared to guidance of \$1,055 to \$1,155 for the full year 2013.
- Endeavour continues to review each operation's long-term plans with the goal of targeting significant and sustainable cost savings. To date, the review has successfully resulted in the conversion to owner-mining for the open pit at the Tabakoto gold mine. Endeavour is also converting from contractor-mining to owner-mining at the Tabakoto underground operations and will carry out owner mining production at the Segala underground mine.
- Endeavour achieved its 2013 capital program objectives with the completion of the Tabakoto mill expansion and Agbaou construction. Total capital expenditure and exploration of \$221.1 million was below the original 2013 guidance of \$227 million, which also did not budget for Agbaou being virtually complete with most of the capital expenditures allocated to 2014 for completion of Agbaou having been spent in 2013.
- The results of the Feasibility Study for the Houndé gold project in Burkina Faso were announced on November 6, 2013. The Feasibility Study demonstrates the viability of a project producing 178,000 ounces per year over eight years at an all-in sustaining cost of under \$800 per ounce. Based on a gold price of \$1,300 per ounce the project has an internal rate of return of 22.4% (after-tax). Houndé is currently in the permitting stage, which is expected to be completed in 2014.

<sup>1</sup> Total cash costs are a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 42.

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**OPERATIONAL HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)**

The following table summarizes the consolidated operating results of the Nzema, Tabakoto and Youga gold mines for the three months and years ended December 31, 2013 and 2012 that are included in Endeavour's financial results:

<b>Operating Data:</b>	Three Months Ended December 31,		Years Ended December 31,	
	2013	2012 <sup>3</sup>	2013	2012 <sup>3</sup>
Gold ounces produced <sup>4</sup> :	80,623	68,299	324,275	220,462
Gold ounces sold:	82,578	68,721	318,505	218,887
Realized price (before royalties)				
Gold (\$/ounce) <sup>2</sup>	1,262	1,705	1,392	1,669
Total cash cost per gold ounce produced (excluding royalties) (\$/ounce) <sup>1</sup>	929	999	886	767
Total cash cost per gold ounce sold (excluding royalties) (\$/ounce) <sup>1</sup>	911	981	890	763
<b>Financial Data</b> (US dollars in thousands)				
Revenues	104,232	117,162	443,314	365,318
Royalties	5,686	6,792	24,001	19,221
Earnings (loss) from mine operations <sup>5</sup>	(19,722)	15,232	11,358	94,970

<sup>1</sup> Total cash costs are a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 42.

<sup>2</sup> The realized price is the realized average gold price received for all ounces sold including sales at the gold hedge price.

<sup>3</sup> Includes only the operations of the Youga and Nzema Gold Mines.

<sup>4</sup> Includes purchased ore.

<sup>5</sup> Earnings (loss) from mine operations excludes depreciation of corporate assets

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**FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2013**

- Revenue increased by \$78.0 million to \$443.3 million from \$365.3 million for the same period in 2012. The increase was a result of higher gold sales volume for the full year of 2013 compared to the full year of 2012 due to the inclusion of Tabakoto. Endeavour realized an average gold price (before royalties) of \$1,392 per ounce compared to \$1,669 per ounce in the same period in 2012.
- Earnings from mine operations decreased by \$83.6 million to \$11.4 million from \$95.0 million for the same period in 2012. The decrease is attributable to the lower gold price, higher operating costs from Nzema and inclusion of Tabakoto, with a higher cost base, as well as a higher level of acquisition related depreciation and depletion of mineral properties for the full year of 2013 compared to the same period in 2012.
- Net loss attributable to shareholders of Endeavour of \$332.5 million, or (\$0.81) per share, compared to a net loss of \$15.5 million, or (\$0.06) per share, for the same period in 2012. The most significant factor contributing to the loss was the \$506.9 million non-cash impairment (gross of tax) of goodwill, mineral property and property, plant and equipment. Other contributing factors were the lower gold price, higher operating expenses, increased depreciation and depletion, finance costs and current income and other taxes.
- Adjusted net loss was \$27.7 million or (\$0.07) per share for the full year of 2013. See Non-GAAP Measures section which provides a reconciliation of net loss to adjusted net loss.
- Cash and cash equivalents were \$73.3 million at December 31, 2013 compared to \$105.9 million at December 31, 2012. The decrease in the 2013 year end closing cash balance was as a result of the timing of expenditures being advanced from 2014 to 2013 due to the completion of Agbaou construction ahead of schedule (with cash expenditure having occurred in 2013 with minimal project spend in 2014), prepayments of approximately \$7 million on owner-mining equipment for Tabakoto and over 6,000 ounces of gold from Agbaou that were not shipped and sold until January 7, 2014. Endeavour has drawn \$300 million from the \$350 million amended senior secured revolving corporate loan facility (the "Facility") and is in compliance with its financial covenants.
- On September 26, 2013 the Corporation completed part of the sale and transfer of the licenses and associated property comprising the Finkolo joint venture in Mali. This resulted in a realized gain of \$13.4 million, and net cash proceeds of \$16.0 million.
- On July 24, 2013 the Corporation signed the \$350 million Facility with UniCredit Bank AG, BNP Paribas, ING Bank NV, Société Générale and Deutsche Bank AG. Up to \$300 million of the Facility can be used for general corporate purposes including working capital and capital expenditures. The remaining \$50 million of the Facility can be made available to fund expansions and other capital projects.

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**OUTLOOK**

***Corporate Objectives***

Endeavour is focused on optimizing current operations, as well as lowering overall costs and improving cash flows at its producing gold mines. Expectations are that this optimization phase will be completed by mid-year 2014 and Endeavour will then be able to focus on growth initiatives. Endeavour's 2014 targets, which include i) producing 400,000 to 440,000 gold ounces; and ii) improved cash costs and all-in sustaining costs will be assisted by the mill expansion at Tabakoto, the completed construction of the low cost Agbaou mine (which will benefit from free dig ore in the early years and low cost grid power), the cost reduction program and owner-mining at Tabakoto. In addition, Tabakoto will benefit from access to ore from the higher grade Segala underground mine which commences in the second quarter of 2014 and will achieve full production in the second half of the year. In the meantime the expanded mill, which is operating above nameplate capacity, will process some historically mined, lower grade stockpiles which will result in higher cash costs until Segala is in full production (in addition to the current ore mined from the open pit and underground mines).

The gold price environment has been challenging during 2013, which has seen the price close from a high of \$1,694 to a low of \$1,192 per ounce. In light of the on-going integration of acquisitions and also the decrease in the gold price, management reviewed (and will continue to review and monitor) its operating plans with a focus on improving cash flow. A rigorous cost and working capital review was carried out in 2013 and into 2014, and this will see lower all-in sustaining costs in 2014, particularly after the owner mining conversion is complete at Tabakoto. In addition, a third party has been reviewing working capital and the purchasing/inventory cycle. The Corporation continues to take proactive steps to mitigate the impact of the decrease in the gold price and prepare for any potential future volatility in order to allow Endeavour to focus on delivering its 2014 objectives, which include the following:

- Successful first year of operations at Agbaou;
- Completion of the access and ramp development for the Segala deposit at the Tabakoto mine complex in 2014;
- Transition to full owner-mining activities at all Tabakoto mines;
- Achievement of gold production and cost guidance, as detailed below;
- Continuing improvement of the purchasing, warehousing and logistics functions at each mine with the assistance of a third party consultant specializing in working capital and purchasing cycle improvements;
- Receiving the mining permits for Houndé and the Kofi project, which are expected in 2014; and
- Extension of mine lives through exploration.

***Production, Cost and Investment Guidance for 2014***

Endeavour's 2014 gold production is forecast to be between 400,000 to 440,000 ounces at an all-in sustaining cost of between \$985 and \$1,070 per ounce. The production guidance is inclusive of a full 12 months of gold production from Agbaou, which achieved commercial production status on January 27, 2014. For financial reporting purposes, the value of the gold produced prior to commercial production will be deducted from capitalized construction costs, rather than recorded as revenue.

At a gold price of \$1,250 per ounce, the mid-point of Endeavour's 2014 guidance range generates an all-in sustaining cost margin of approximately \$95.0 million. The 2014 all-in sustaining cost definition includes all underground development expenses as "sustaining capital" at Tabakoto and at Segala from mid-2014 once commercial stoping ore production is achieved. Our 2014 guidance range represents an approximate 10% improvement as compared to 2013, using the 2014 AISC definition.

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**OUTLOOK (CONTINUED)**

*All-in Sustaining Cost Guidance and Margin at \$1,250 gold price*

<b>2014 Guidance, in \$/oz</b>		<b>Mid-2014 Guidance, in \$ Million</b>	
Gold Production Ranges (ozs)	400,000 - 440,000		420,000
	\$/oz		\$Million
Royalties	\$60 - \$70	Revenue (at \$1,250)	\$525
Cash costs	\$775 - \$825	Royalties	27
Corporate G&A	\$40- \$45	Cash costs	336
Sustaining capital	\$110 - \$130	Corporate G&A	17
<b>AISC per ounce</b>	<b>\$985 - \$1,070</b>	"EBITDA" Margin	145
		Sustaining capital	50
		<b>AISC Margin</b>	<b>\$95</b>

All-in sustaining cost (AISC) guidance notes

- a) Royalties: Approximately 5% to 6% of assumed \$1,250 gold price  
b) Corporate G&A: 2014 \$/oz range based on \$17 million budget, or approximately 3% of gold sales  
c) Sustaining capital of approximately \$50 million is inclusive of \$27 million for underground development at Tabakoto and at Segala from mid-year following commercial ore stopping and \$16 million at Nzema for waste capitalization, TSF lift, deprivation of land use and other sustaining capital investments

Mine	Gold Production (ozs) <sup>1</sup>			
	2011 Actual	2012 Actual	2013 Actual	2014 Guidance Range
Tabakoto, Mali	91,200	110,301	125,231	<b>140,000 - 155,000</b>
Nzema, Ghana <sup>2</sup>	90,026	109,447	103,464	<b>110,000 - 120,000</b>
Agbaou, Côte d'Ivoire <sup>3</sup>	-	-	6,132	<b>85,000 - 95,000</b>
Youga, Burkina Faso	87,264	91,030	89,448	<b>65,000 - 70,000</b>
<b>Total</b>	<b>268,490</b>	<b>310,778</b>	<b>324,275</b>	<b>400,000 - 440,000</b>

<sup>1</sup> On a 100% basis

<sup>2</sup> Includes purchased ore

<sup>3</sup> Agbaou is presented on a full 12 month basis in 2014; commercial production was declared on January 27, 2014

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**OUTLOOK (CONTINUED)**

*2014 Cash Costs Guidance by Mine*

Tabakoto cash costs (excluding royalties) are forecast at \$790 to \$840 per ounce for the year. During the first quarter of 2014, the cash costs are expected to be above the cost guidance range. With completion of the second underground mine, Segala, during the second quarter of 2014, cash costs are then expected to improve to \$750 to \$800 per ounce. Segala is scheduled for progressive increases in underground ore production during the year, thereby leading to an increase in mill feed grades.

Nzema cash costs (excluding royalties) are forecast at \$780 to \$830 per ounce for the year. During 2014, the average mill feed grade at Nzema is scheduled to be approximately 2.0 g/t. This compares favourably to the 1.90 g/t achieved during 2013.

Agbaou cash costs (excluding royalties) are forecast at \$730 to \$780 per ounce for the year. The first half of 2014 is expected to be in the range of \$800 to \$850 per ounce due to costs associated with the start-up of operations and the processing of relatively low-grade ore of 1.6 g/t. During the second half of 2014, the mill feed grade is scheduled to improve to over 2.0 g/t.

Youga cash costs (excluding royalties) are forecast at \$790 to \$840 per ounce for the year. The first half of 2014 is expected to be in the range of \$700 to \$750 per ounce, with cash costs per ounce increasing in the second half of 2014 as mill feed grades are scheduled to decline from approximately 2.4 g/t to 2.1 g/t through the year, which compares to 2.98 g/t in 2013.

*2014 Investment Guidance*

Endeavour's sustaining capital expenditure in 2014 will include the following key items:

- Underground development of approximately \$19 million at the Tabakoto and Segala underground mines, as well as \$8 million for a minor mill upgrade, utility vehicles, engine and transmission rebuilds, engineering and warehouse upgrades;
- Waste capitalization of approximately \$7 million at Nzema, as well as \$3 million for a TSF raise and \$6 million for deprivation of land use, partial resettlement, pit development and other items; and
- Minimal sustaining investments at Youga and Agbaou of approximately \$4 million and \$1 million, respectively.

Endeavour's non-sustaining investments in 2014 will be focused on the following:

- Completing the optimization of Tabakoto, which includes \$20 million for the Segala ramp and pre-stopping development by mid-2014 and ancillary investments of \$13 million for a cemented rock fill ("CRF") plant, tailings facility ("TSF") expansion and other items;
- Transitioning to 100% owner mining at Segala and Tabakoto, which will reduce mining costs in 2014 and in the future. This transition started in December 2013, after the first gold pour at Agbaou, with the prepayment of \$7 million on the purchase of mining equipment. During 2014, equipment purchases are expected to be approximately \$10 to \$15 million to complete the mining fleet at Segala and approximately \$10 million at Tabakoto to replace equipment currently provided by the mining contractor. A significant portion of the equipment is expected to be leased;
- Endeavour's other non-sustaining investments in 2014 include \$7 million at Nzema for a new pebble crushing circuit and pit development work and less than \$2 million at Agbaou and Youga each; and
- The 2014 exploration budget will be similar to 2013 with \$10 million invested in programs to extend mine life.

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**OPERATIONS REVIEW**

**Nzema Gold Mine, Ghana**

The following table summarizes the operating results of the Nzema Gold Mine for the three months and years ended December 31, 2013 and 2012:

<b>Operating Data:</b>	Three Months Ended December 31,		Years Ended December 31,	
	2013	2012	2013	2012
Tonnes of ore mined (000's)	447	494	2,170	2,002
Average gold grade mined (grams/tonne)	1.74	1.47	1.39	1.54
Tonnes of ore milled (000's)	421	528	1,954	2,144
Average gold grade milled (grams/tonne)	2.46	1.83	1.90	1.79
Gold ounces produced <sup>3</sup> :	29,061	26,663	103,464	109,447
Gold ounces sold:	30,950	26,663	103,332	109,295
Realized price (before royalties)				
Gold (\$/ounce) <sup>2,4</sup>	1,259	1,716	1,386	1,665
Total cash cost per gold ounce produced (excluding royalties) (\$/ounce) <sup>1</sup>	771	911	917	753
<b>Financial Data</b> (US dollars in thousands)				
Revenues	38,961	45,759	143,206	182,002
Royalties	2,251	2,846	7,471	9,667
Earnings (loss) from mine operations	(832)	5,884	(1,468)	32,623

<sup>1</sup>Total cash costs are a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 42.

<sup>2</sup>The realized price is the average price received for all ounces sold including sales at the gold hedge price.

<sup>3</sup>Includes purchased ore of 10,368 and 27,659 ounces for the three months and year ended December 31, 2013 respectively. For the three months and year ended December 31, 2012 it includes 3,768 and 10,253 ounces respectively.

<sup>4</sup>In June and September 2013 Nzema received a load and haul credit of \$5.9 million as a result of an overcharge by the mining contractor that related to costs from previous years and the first and second quarters of 2013. These credits have been accounted for in the second and third quarters of 2013. The first quarter of 2013 cash costs have not been restated and both the second and third quarter cash costs have been adjusted to reflect the adjustments. Refer to the Non-GAAP Measures section (Total cash costs).

The highlights for the year ended December 31, 2013 for Nzema are as follows:

- Nzema had a strong end to the year and gold production was 103,464 ounces compared to 109,447 ounces for the same period in 2012. Production for the majority of the year was affected by lower than expected grade in the upper portions of the Adamus deposit, however grades have returned to expected levels in the fourth quarter;
- The process plant treated 1,954,000 tonnes of ore at an average grade of 1.90 g/t compared to 2,144,000 tonnes at an average grade of 1.79 g/t for 2012. Gold grades and production improved and returned to expected levels in the fourth quarter of 2013 and 2014 expectations are for the grade to average 2.02 g/t, including purchased ore;
- Revenue was \$143.2 million compared to \$182.0 million for 2012. The decrease in revenue is a combination of a lower gold price and lower grade which has been offset by more purchased ore (27,659 ounces compared to 10,253 ounces in 2012);
- Gold ounces sold were 103,332 at a realized average gold price<sup>2</sup> (before royalties) of \$1,386 per ounce compared to 109,295 ounces at a realized average gold price<sup>2</sup> (before royalties) of \$1,665 per ounce for 2012. During 2012, 19,998 ounces were delivered into the hedge (no ounces were delivered in 2013);
- Total cash costs<sup>1</sup> (excluding royalties) per ounce produced for the full year 2013 were \$917. The fourth quarter improved significantly as grades returned to plan;

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**OPERATIONS REVIEW (CONTINUED)**

***Nzema Gold Mine, Ghana*** (continued)

- Nzema production generated an operating margin (revenue, net of royalties, less operating costs) of \$27.5 million compared to \$84.6 million for the same period in 2012;
- Nzema generated \$36.7 million of operating cash flow from mine operations compared to \$87.8 million for the same period in 2012. The decrease in operating cash flow is a result of the decrease in the volumes mined and processed and a lower gold price;
- Nzema incurred \$1.5 million of losses from mine operations compared to income of \$32.6 million for the same period in 2012 due to lower gold prices and volumes, higher costs and significant depreciation as a result of the purchase price accounting; and
- Mine management is taking proactive steps to increase production and reduce costs in order to improve cash flows during this challenging gold price environment. Employee numbers including contractors were reduced by 32% during 2013, lower service fees and prices were negotiated and additional purchased ore agreements were negotiated at more favourable prices and linked to the lower gold price.

The highlights for the three month period ended December 31, 2013 for Nzema are as follows:

- Gold production was 29,061 ounces in the fourth quarter of 2013 compared to 26,663 ounces for the same period in 2012. Gold grades processed and production improved in the fourth quarter of 2013 with an average mined grade of 1.74 g/t;
- The process plant treated 421,000 tonnes of ore at an average grade of 2.46 g/t in the fourth quarter of 2013 compared to 528,000 tonnes at an average grade of 1.83 g/t for the same period in 2012;
- Revenue was \$39.0 million in the fourth quarter of 2013 compared to \$45.8 million for the same period in 2012. The decrease in revenue is primarily due to a lower gold price;
- Gold ounces sold were 30,950 at a realized average gold price<sup>2</sup> (before royalties) of \$1,259 per ounce compared to 26,663 ounces at a realized average gold price<sup>2</sup> (before royalties) of \$1,716 per ounce for the same period in 2012. During the fourth quarter of 2012, 12,349 ounces were delivered into the hedge (no ounces were delivered in 2013);
- Total cash costs<sup>1</sup> (excluding royalties) per ounce produced for the fourth quarter of 2013 were \$771 compared to \$911 for the same period in 2012. The development of the Adamus open pit ramped up slowly, but returned to higher grades in the final quarter of 2013;
- Nzema production generated an operating margin (revenue, net of royalties, less operating costs) of \$2.7 million compared to \$18.5 million for the same period in 2012;
- Nzema generated \$14.1 million of operating cash flow from mine operations compared to \$17.4 million for the same period in 2012; and
- Nzema incurred \$0.8 million of losses from mine operations compared to income of \$5.9 million for the same period in 2012 due to lower gold prices and volumes, higher costs and significant depreciation as a result of the purchase price accounting.

The Corporation holds a 90% interest in the Nzema gold mine with the Government of Ghana holding the remaining 10%. The Nzema mining licenses are valid for 10 years with the right to apply for an extension of the licenses. Commencement of commercial production was achieved on April 1, 2011.

Nzema is situated in southwestern Ghana, approximately 280 kilometres west of Ghana's capital city, Accra. The four Nzema mining licenses are located within a contiguous block of tenements and options covering approximately 665 square kilometres, located at the southern end of Ghana's Ashanti Gold Belt.

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**OPERATIONS REVIEW (CONTINUED)**

***Nzema Gold Mine, Ghana*** (continued)

Nzema includes a series of shallow oxide pits along the Salman Trend, together with the Adamus, Bokrobo, Nfutu and Aliva deposits located eight kilometres west of the Salman Trend. The mine is accessible via 80 kilometres of sealed road from the major port city of Takoradi, and is in close proximity to the substantial mining centre at Tarkwa.

Mining during the year ended December 31, 2013 was primarily from the Adamus and Salman pits and the Nfutu starter pit. A total of approximately 1,153,500 and 5,132,900 bank cubic metres ("BCM") of material were mined in the three months and year ended December 31, 2013. This includes 446,600 and 2,170,000 tonnes of ore mined in the three months and year ended December 31, 2013. Initial mining began at the Adamus pits in December 2012, which currently accounts for approximately two-thirds of the total Nzema reserves. ROM ore grade in the oxide and upper transitional material has been low, but has improved significantly at depth.

Gold extracted from Nzema is processed at a rate of 1.6 million tonnes per annum to 2.1 million tonnes per annum (depending on ore type) in a conventional carbon-in leach ("CIL") gold plant with a 3.5 megawatt semi-autogenous grinding ("SAG") mill, CIL and two tailings counter current decant thickeners.

The processing plant is located to the west of the Salman Central pits and is connected to the national power grid via a dedicated 33.5 kV, 12.2 kilometre power line that connects the process plant site to the Volta River Authority ("VRA") substation at Essiama, which is owned by the Corporation. Water is supplied by the Corporation's Ankobra River pipeline and stored in a water storage dam, however Nzema has been self-reliant in terms of water supply since the middle of 2011.

The process flow is based on single stage crushing, single stage SAG milling, gravity recovery of free gold from a portion of cyclone underflow and a nine stage CIL circuit. Run of mine ("ROM") ore is loaded onto a single toggle jaw crusher via a static grizzly and hopper. The crusher discharge feeds the SAG mill via a transfer point where material can be scalped to a crushed ore stockpile to maintain feed while the crusher is non-operational.

Nzema employs approximately 680 workers, including 220 full time Endeavour employees and 460 contractors. The workforce was reduced by 32% since the beginning of 2013 as operations reached steady state and cost reduction programs were initiated. Only three expatriates are employed at the mine, with most of the workers coming from local communities. There is extensive training provided for the local work force for both unskilled and skilled positions.

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**OPERATIONS REVIEW (CONTINUED)**

***Youga Gold Mine, Burkina Faso***

The following table summarizes the operating results of the Youga Gold Mine for the three months and years ended December 31, 2013 and 2012:

<b>Operating Data:</b>	Three Months Ended December 31,		Years Ended December 31,	
	2013	2012	2013	2012
Tonnes of ore mined (000's)	379	257	1,142	1,065
Average gold grade mined (grams/tonne)	2.68	3.14	2.96	3.09
Tonnes of ore milled (000's)	258	241	1,006	1,013
Average gold grade milled (grams/tonne)	2.95	3.03	2.98	2.93
Gold ounces produced:	22,417	21,651	89,448	91,030
Gold ounces sold:	22,399	22,943	89,883	90,477
Realized price (before royalties)				
Gold (\$/ounce) <sup>2</sup>	1,265	1,704	1,402	1,669
Total cash cost per gold ounce produced <sup>1</sup>	745	877	730	678
<b>Financial Data</b> (US dollars in thousands)				
Revenues	28,332	39,088	126,021	151,001
Royalties	1,227	2,009	6,103	7,617
Earnings from mine operations	2,702	9,787	34,609	62,786

<sup>1</sup> Total cash costs are a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 42.

<sup>2</sup> The realized price is the average price received for all ounces sold.

The highlights for the year ended December 31, 2013 for Youga are as follows:

- Youga mine delivered strong gold production of 89,448 ounces compared to 91,030 ounces for the same period in 2012. Gold production for the full year 2013 was at the top end of our guidance and reflects slightly higher than expected grades arising from the deposits being mined;
- The process plant treated 1,006,000 tonnes of ore at an average grade of 2.98 g/t compared to 1,013,000 tonnes of ore at an average grade of 2.93 g/t for the same period in 2012. The decrease in tonnage throughput was due to lower production in the first and third quarters of 2013 when the mill throughput rate was reduced to batch treat accumulated scats material coupled with a crusher shut down for inspection and emergency repairs during the third quarter of 2013;
- Gold ounces sold were 89,883 at a realized average gold price<sup>2</sup> (before royalties) of \$1,402 compared to 90,477 ounces at a realized average gold price<sup>2</sup> (before royalties) of \$1,669 in the same period in 2012;
- Revenue was \$126.0 million compared to \$151.0 million for the same period in 2012. The decrease in revenue is primarily due to the lower gold price realized in 2013;
- Total cash costs<sup>1</sup> (excluding royalties) per gold ounce produced were below guidance at \$730 compared to \$678 for the same period in 2012. The increase in unit cash costs reflects increased operating costs principally related to consumables prices, local land taxes and insurance;
- Despite lower gold prices Youga delivered another solid full year operational performance and generated an operating margin (revenue, net of royalties, less operating costs) of \$47.2 million compared to \$78.8 million for the same period in 2012;
- Youga generated \$55.1 million of operating cash flow from mine operations compared to \$85.7 million for the same period in 2012;

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***Youga Gold Mine, Burkina Faso*** (continued)

- Youga generated \$34.6 million of earnings from mine operations compared to \$62.8 million for the same period in 2012. The decline in earnings primarily relates to the lower gold price and increased operating costs;
- Mine management introduced a number of continuous improvement initiatives targeting manpower and operational productivities, supply chain management and working capital application in order to contain unit costs in the face of the increased depth of the pits and inflationary input cost pressures. The number of employees has been reduced by approximately 8% in 2013;
- There was one lost time incident during the year, however there were no reportable environmental incidents during the period; and
- The Ghana Grid Power project was advanced with the successful commissioning of the co-generation synchronization system between the site back up diesel generator plant and the grid resulting in reduced site generation costs. Work was progressed with the Ghana power authorities on the completion of the mine site to grid operator communications link and a switchgear upgrade for the main grid supply between Bolgatanga and the Youga take off substation at Zebilla in Ghana. This work is expected to be completed during the course of the first half of 2014.

The highlights for the three month period ended December 31, 2013 for Youga are as follows:

- A solid performance was maintained with gold production of 22,417 ounces in the fourth quarter of 2013 compared to 21,651 ounces for the same period in 2012. The relative increase in gold production was due to the higher mill throughput, although this was partially offset by lower metallurgical recovery of 91.8% against 92.1% for the same period in 2012;
- The process plant treated 258,000 tonnes of ore at an average grade of 2.95 g/t in the fourth quarter of 2013 compared to 241,000 tonnes of ore at an average grade of 3.03 g/t for the same period in 2012. The increase in throughput resulted from comparatively higher plant availability and utilization;
- Gold ounces sold were 22,399 ounces at a realized average gold price<sup>2</sup> (before royalties) of \$1,265 compared to 22,943 ounces at a realized average gold price<sup>2</sup> (before royalties) of \$1,704 for the same period in 2012;
- Revenue was \$28.3 million in the fourth quarter of 2013 compared to \$39.1 million for the same period in 2012. The decline in revenue is largely due to a decrease in the gold price and a slightly lower volume of gold sold (544 ounces) compared to the same period in 2012;
- Total cash costs<sup>1</sup> (excluding royalties) per gold ounce produced for the fourth quarter of 2013 were below guidance at \$745 compared to \$877 for the same period in 2012. The comparative period decrease in unit cash costs is due to the 766 ounces difference in gold production over the two periods and a focus on costs;
- Despite a stronger gold production performance, Youga generated an operating margin (revenue, net of royalties, less operating costs) of \$3.8 million compared to \$13.9 in the same period in 2012 due to the lower realized gold price and a 544 ounce reduction in gold sales;
- Youga generated \$9.8 million of operating cash flow from mine operations compared to \$30.0 million for the same period in 2012. The decrease is a net result of a lower gold price, increased production, changes in working capital; and
- Youga generated \$2.7 million of earnings from mine operations compared to \$9.8 million for the same period in 2012. The decrease primarily relates to a lower gold price and lower gold sales.

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**OPERATIONS REVIEW (CONTINUED)**

***Youga Gold Mine, Burkina Faso*** (continued)

A total of 481,697 BCM and 2,439,583 BCM of material were respectively mined during the three month period and year ended December 31, 2013 delivering 378,359 tonnes and 1,141,758 tonnes of ore to the ROM pad respectively. In the corresponding periods for 2012 a total of 621,033 BCM and 2,432,749 BCM and 257,237 tonnes and 1,065,201 tonnes were mined respectively. During 2013 mined volumes were in line with plan and were from the Main pit, East pit and West pit 3, all three of which are scheduled to be depleted in 2014.

At December 31, 2013 the ROM stockpile closed at 498,100 tonnes containing 22,268 ounces at 1.39 g/t compared to 311,359 tonnes at 1.80 g/t containing 18,058 ounces at the beginning of the year. The increase in the ROM stockpile is due to low strip ratios as the three operating pits progressed in depth and increased the strategic mill reserve from 3 months to approximately 5 months.

Youga is situated in the province of Boulgou, Burkina Faso approximately 180 kilometres southeast of Ouagadougou, the capital city of Burkina Faso and is accessible by paved and laterite roads. Endeavour holds a 90% interest in Burkina Mining Company SA ("BMC"), which in turn holds the Youga gold mine mining permit (the "Youga Mining Permit"). The Government of Burkina Faso holds the remaining 10% of BMC. The Youga Mining Permit covers 29 square kilometres, is valid until April 7, 2023 and is renewable for additional five year periods.

Youga is a hard rock, drill and blast mining operation and commenced commercial production in mid-2008. Drilling and blasting, and loading and hauling are carried out under contract by PW Mining International Limited. Mining during the year ended December 31, 2013 focused on the Main pit, West pit 3 and East pit pushback. Drilling continues to test the extension of mineralization at depth around the Main pit, East pit and West pit 3 and the data is presently being incorporated into the updated mineral resource model. In January 2013, results from the Ouaré PEA showed potential to add three years to the Youga mine life by trucking ore from Ouaré to the Youga plant, some 40 kilometres away.

The ore is processed through a conventional gravity-CIL (carbon-in-leach) processing plant with a design capacity of one million tonnes per annum.

Grid power is delivered to site from Ghana via a 21 kilometre transmission line. A complete backup diesel generated power supply capable of delivering 8 megawatts is available on site and is synchronized to the grid in order to improve quality and availability of power. A year round supply of water is obtained from the Nakambe River via an 11 kilometre long pipeline to a raw water storage pond. The tailings storage facility is designed to maximize water recovery in an effort to minimize the primary water demand.

Youga employs approximately 740 workers in total, including 365 full time Endeavour employees and 375 contractors. The workforce was reduced by 8% since the beginning of 2013. Most of the work force is local, with less than 6% of the total being expatriate workers. The Corporation is focused on training and development of the local employees for management and supervisory roles across the entire spectrum of its operational and commercial activities.

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**OPERATIONS REVIEW (CONTINUED)**

***Tabakoto Gold Mine, Mali***

The Tabakoto gold mine was added to Endeavour's operations on October 18, 2012 through the acquisition of Avion.

The following table summarizes the operating results of the Tabakoto Gold Mine for the three months and years ended December 31, 2013 and 2012:

	Three Months Ended December 31,		Years Ended December 31,	
	2013	2012 <sup>3</sup>	2013	2012 <sup>3</sup>
<b>Operating Data:</b>				
Tonnes of ore milled Open pit & Underground combined (000's)	379	-	1,251	-
Average gold grade milled Open pit & Underground (grams/tonne)	2.80	-	3.44	-
Tonnes of ore mined - Open pit (000's)	150	-	559	-
Average gold grade mined - Open pit (grams/tonne)	2.57	-	3.00	-
Tonnes of ore mined - Underground (000's)	141	-	495	-
Average gold grade mined - Underground (grams/tonne)	4.70	-	4.70	-
Gold ounces produced:	29,145	19,985	125,231	19,985
Gold ounces sold:	29,229	19,115	125,290	19,115
Realized price (before royalties)				
Gold (\$/ounce) <sup>2</sup>	1,264	1,691	1,389	1,691
Total cash cost per gold ounce produced <sup>1</sup> (excluding royalties) (\$/ounce)	1,228	1,250	972	1,250
<b>Financial Data</b> (US dollars in thousands)				
Revenues	36,939	32,315	174,087	32,315
Royalties	2,208	1,937	10,427	1,937
Loss from mine operations	(21,592)	(439)	(21,783)	(439)

<sup>1</sup>Total cash cost is a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 42.

<sup>2</sup> The realized price is the average price received for all ounces sold.

<sup>3</sup> The Tabakoto Gold Mine was added to Endeavour's operations on October 18, 2012 through the acquisition of Avion.

The highlights for the year ended December 31, 2013 for Tabakoto are as follows:

- Gold production of 125,231 ounces was achieved following the successful mill expansion that was completed in the second quarter of 2013. Production was slightly below guidance due to a slower than planned ramp up of the expanded mill in the second quarter;
- The process plant treated 1,251,000 tonnes of ore at an average grade of 3.44 g/t, which is lower than expected due to a shortfall in open pit mining in the third quarter and a slower than planned ramp up of the expanded mill in the second quarter. As a result of less production from the open pit and the mill operating at levels significantly above nameplate of 4,000 tpd, historically mined lower grade stockpiles were processed in the fourth quarter, which impacted the average grade and cash costs over the last few months of the year;
- Gold ounces sold were 125,290 at a realized average gold price<sup>2</sup> (before royalties) of \$1,389;
- Revenue was \$174.1 million;
- Total cash costs<sup>1</sup> (excluding royalties) per gold ounce produced were \$972 which is an improvement on the high costs in late 2012;
- Tabakoto production generated an operating margin (revenue, net of royalties, less operating costs) of \$32.1 million;
- Tabakoto had \$4.7 million of operating cash outflow from mine operations;
- Tabakoto incurred a \$21.8 million loss from mine operations due to a lower gold price, high depreciation from purchase price accounting, and the significant decrease in working capital as a result of the decision to enter into owner mining;

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***Tabakoto Gold Mine, Mali*** (continued)

- The Segala main decline is progressing and now extends over 1,240 metres from the portal as of February 28, 2014. The Segala underground development ore production commenced during the fourth quarter of 2013 with stoping ore scheduled to commence production during the second quarter of 2014;
- The mill expansion was completed during the second quarter which increased nameplate capacity from 2,000 tpd to 4,000 tpd with the expectation that the gold production rate should be at approximately 150,000 ounces on an annualized basis. The mill expansion included the addition of a SAG mill, additional CIL tanks, an additional thickener, a new gravity tower, an in-line leach reactor and a new gold room; and
- A major business systems upgrade was completed in mid-2013. The upgrade was designed to ensure that mine operations have timely access to production and cost information, as part of the workforce and cost reduction programs and productivity improvement initiatives implemented. Endeavour is also strengthening cost budgeting, reporting and follow-up through standardization of systems and reports. The replacement of the legacy system is complete.

The highlights for the fourth quarter of 2013 for Tabakoto are as follows:

- Strong gold production of 29,145 ounces as a result of the mill expansion which has increased mill throughput from 2,000 tpd to over 4,000 tpd;
- The process plant treated 379,000 tonnes of ore at an average grade of 2.80 g/t;
- Gold ounces sold were 29,229 at a realized average gold price<sup>2</sup> (before royalties) of \$1,264 per ounce;
- Revenue was \$36.9 million;
- Total cash costs<sup>1</sup> (excluding royalties) per gold ounce produced were \$1,228 which is temporarily higher due to the processing of lower grade stockpiles until full ramp up of Segala production is completed in the second quarter of 2014;
- Tabakoto production incurred an operating loss (revenue, net of royalties, less operating costs) of \$0.7 million;
- Tabakoto had \$20.0 million of operating cash outflow from mine operations due to the significant decrease in working capital as a result of the decision to enter into owner mining in addition to higher operating costs during the quarter; and
- Tabakoto incurred a loss of \$21.6 million from mine operations due to lower gold prices and high depreciation from purchase price accounting.

The Tabakoto property is 155 square kilometres and is located 360 kilometres west of Bamako in southwestern Mali near the border with Senegal. Endeavour holds an 80% interest in the Tabakoto Gold Mine with the Government of Mali holding the remaining 20%. Power is produced on site with diesel generators and access is either by local airstrip or a five hour drive from Bamako, the capital of Mali. It is also a twelve hour drive from Dakar, the capital of Senegal.

During the year ended December 2013, mining was from the Djambaye open pit and the Tabakoto underground mine. In January 2013 Endeavour took over the entire open pit mining operation at Djambaye and improvements have been implemented. A total of approximately 5,606,000 tonnes of material was mined from Djambaye, including 412,000 tonnes of ore. Open pit mining was impacted by heavy rains in September which decreased production, as well as by less than expected availability of the mining fleet.

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***Tabakoto Gold Mine, Mali*** (continued)

A total of approximately 1,054,000 tonnes of material was mined from the Tabakoto underground mine, of which approximately 495,000 tonnes was ore. Underground mining of the Tabakoto deposit is by long-hole open stoping with access to several mining areas from two portals at the bottom of the Tabakoto pit. Underground development is on-going at the Segala deposit, which forms approximately half of the total resources at Tabakoto. Segala is located five kilometres north of Tabakoto.

In June the expanded mill began operating at design capacity with throughput averaging approximately 4,000 tpd with the expectation that the gold production rate should be at approximately 150,000 ounces on an annualized basis.

Tabakoto employs approximately 1,585 workers in total at December 31, 2013, including 1,030 full time Endeavour employees and 555 contractors. As part of a cost reduction and profit improvement plan at Tabakoto the workforce has been reduced from a total of approximately 1,950 in November 2012 to 1,585 at December 31, 2013, which is a reduction of approximately 19%. During the first half of 2014 the ratio of employees to contractors will increase as the transition to owner mining takes effect. Over 300 employees are expected to be hired to meet the requirements of owner mining (many will be hired directly from the contractor) and hiring progress has proceeded in early 2014 (the number of contractors will decrease commensurately).

***Agbaou Gold Project, Côte d'Ivoire***

Endeavour received its mining permit for Agbaou from the Government of Côte d'Ivoire in 2012. Construction of the mine began late in the second quarter of 2012 and was completed, ahead of schedule and under budget, during the fourth quarter of 2013 with its first gold pour in November 2013. Commercial production was declared on January 27, 2014, which is the same day the mining convention with the Government of Côte d'Ivoire was signed. Endeavour will hold an 85% interest in Agbaou Gold Operations S.A. while the State of Côte d'Ivoire and SODEMI (the State owned mining company) will hold a 10% and a 5% free carried interest, respectively.

Agbaou has been performing above plan since commissioning and is forecast to produce between 85,000 and 95,000 ounces in its first 12 months of the current 8 year mine life. Overall, the operation has performed well after a short ramp up in November and December. The value of the gold produced prior to commercial production will be deducted from capitalized construction costs, rather than recorded as revenue.

Average annual gold production is expected to be 100,000 ounces and will position Agbaou as a strong cash flow generator for Endeavour considering its access to free dig ore in the first few years and low cost grid power.

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***Agbaou Gold Project, Côte d'Ivoire*** (continued)

The Mining Convention governs important aspects of the relationship between the State of Côte d'Ivoire and Agbaou. The negotiated terms are similar to those of other operating gold mines in Côte d'Ivoire and consistent with Endeavour's expectations when the decision to proceed with construction was taken in June 2012, including;

- Royalties: A sliding scale from 3% to 5% depending on gold price (3% up to \$1,000/oz, 3.5% up to \$1,300/oz, 4% up to \$1,600/oz and 5% above \$1,600/oz);
- Corporate Tax holiday: Agbaou mine is eligible for a corporate tax holiday for five years from commencement of commercial gold production;
- VAT: Agbaou will be exonerated from VAT on major imports, services and supplies related to mining activities; and
- Stability: A strong stability clause defining fiscal parameters for the duration of the mining permit.

Agbaou is situated approximately 200 kilometres northwest of the port city of Abidjan. The property covers 334 square kilometres, giving Endeavour control of the 40 kilometre strike length of the Agbaou gold belt. The concession is reached by paved highway and gravel roads and is within 10 kilometres of the national power grid. Electrical power is supplied from the national grid (91kV), and a 1.6 MW diesel power plant has been installed at site for backup purposes.

Currently Agbaou has over 500 people working on site (including contractors), and 85% of Endeavour's team is Ivorian.



Mining of the South Pit at Agbaou

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**OPERATIONS REVIEW (CONTINUED)**

***Agbaou Gold Project, Côte d'Ivoire*** (continued)



Prime Minister of Côte d'Ivoire, Mr. Daniel Kablan Duncan cutting the ribbon to officially open the Agbaou Gold Mine

**DEVELOPMENT PROJECTS REVIEW**

***Houndé Project, Burkina Faso, Permitting Stage***

The Houndé Project is situated in the southwestern region of Burkina Faso just south of Semafo's Mana mine and the property totals approximately 1,000 square kilometres. Ownership is currently 100%; however, upon achieving production Endeavour's ownership would decrease to 90% with the remaining 10% ownership held by the Government of Burkina Faso.

On November 6, 2013 Endeavour announced the results of a positive Feasibility Study on Houndé. The Houndé Project Feasibility Study ("FS") focuses on the Vindaloo group of deposits that are located approximately 250 kilometres and a three hour drive southwest of Ouagadougou, the capital city of Burkina Faso. The deposits are approximately 2.7 kilometres from a paved highway and as close as 100 metres from a 225 kV power line that extends from Côte d'Ivoire through to Ouagadougou. The nearby town of Houndé has a population of approximately 22,000 people. A rail line that extends to the port of Abidjan, Côte d'Ivoire, lies approximately 25 kilometres west of the deposit area. The project will benefit from Endeavour's experience operating at the Youga Gold Mine, also located in Burkina Faso.

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**DEVELOPMENT PROJECTS REVIEW (CONTINUED)**

***Houndé Project, Burkina Faso, Permitting Stage*** (continued)

The highlights of the Houndé FS, on a 100% basis, include:

- Estimated average annual production of 178,000 ounces of gold per year over an 8 year mine life, with a total mineral interest of 1.55 million ounces and life of mine production of 1.44 million ounces;
- An average 93.3% process recovery at a milling rate of 9,000 tpd (nameplate) through a SAG/ball mill, gravity, CIL circuit;
- Owner operated open pit mining with reserves of 25 million tonnes grading 1.95 g/t Au;
- Initial start-up capital is estimated at \$315 million (including working capital, import duties and contingency) with Life-of-Mine sustaining capital estimated at \$62 million and \$26 million of rehabilitation and closure costs;
- Forecast life of mine direct cash cost of \$636 per ounces (excluding royalties) and all-in sustaining cost of \$775 per ounce (including royalties, rehabilitation and closure costs);
- Based on a gold price of \$1,300/oz the project yields after-tax:
  - Internal rate of return 22.4%
  - Net present value of \$364 million @ 0%
  - Net present value of \$230 million @ 5%

Copies of the FS and environmental and social impact assessments ("ESIA") were presented to the Government of Burkina Faso on November 7, 2013. Next steps include public meetings and a technical review meeting (COTEVE) planned for late in the first quarter of 2014. Following the completion of these two in-country meetings, the ESIA report may be submitted as is or updated to reflect specific requests. Once the ESIA is complete, Endeavour would apply for an Industrial Operating Permit, which could be granted by August 2014. Granting of a mine permit would follow with timing dependent on the Mines Ministry, but, expected before year end, 2014.

The Vindaloo zones are hosted by Proterozoic-age, Birimian Group, intensely sericite and silica-altered mafic intrusions and similarly-altered, strongly foliated intermediate to mafic volcanics and occasionally sediments. The mineralization is often quartz stockwork-style and is weakly to moderately pyritic. The Vindaloo trend has been drill tested for a distance of approximately 7.7 kilometres along strike and up to 350 metres depth. The intrusion-hosted zones range up to 70 metres in true thickness and average close to 20 metres true thickness along a 1.2 km section of the zone called Vindaloo Main. Volcanic- and sediment-hosted zones are generally less than 5 m wide. The entire mineralized package strikes north-northeast and dips steeply to the west to vertical. The mineralization remains open both along strike and to depth.

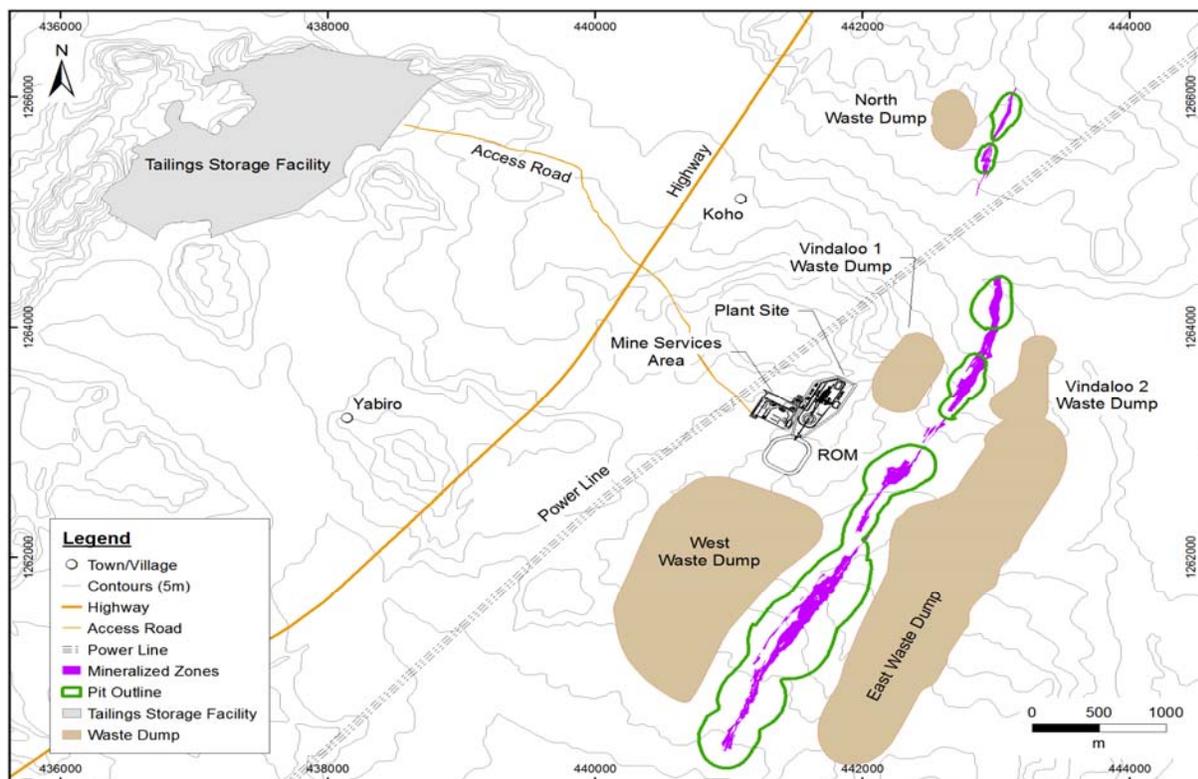
The FS considered the owner operated development of five open pits in the Vindaloo and Madras NW zones over an 8.1 year time period, including 3 months of pre-strip. The Vindaloo pits would mine a series of closely spaced gold zones along an approximate 4.8 km strike length. The Madras NW pits would be mined along an approximately 900 metre long zone and would only mine saprolite and transition mineralization.

Diluted Proven and Probable Mineral Reserves total 24.64 million tonnes grading 1.95 g/t Au totalling 1.55 million ounces, reported at a range of cut-off grades from 0.35 g/t Au to 0.62 g/t Au depending on the zone and oxidation type. In addition, 660,000 tonnes of Inferred Mineral Resources grading 1.61 g/t Au lie within the pit envelope. However, only Measured and Indicated Mineral Resources were considered in the mine design and production schedule.

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**DEVELOPMENT PROJECTS REVIEW (CONTINUED)**

***Houndé Project, Burkina Faso, Permitting Stage*** (continued)



Power for the processing plant will come from the adjacent 225 kV power line that extends from Côte d'Ivoire to Ouagadougou. Sonabel, the state power entity, have agreed, in principle, to sell power to the project; however, the terms and conditions of this sale have not been defined.

Project staff will include approximately 470 people, not including catering and cleaning staff and miscellaneous contractors with 41 international and African expatriates and 430 Burkinabe employees. A camp to house 130 senior staff will be installed with the remaining employees living in the nearby communities.

*Project Schedule*

The project permitting process has been started and is anticipated to take 6 to 9 months. Engineering, procurement and construction is estimated at 21 months from Board approval to first gold.

**EXPLORATION REVIEW**

Endeavour's exploration programs focused on activities that add value in the near to mid-term and included mine site and near mine exploration at Tabakoto/Segala and the Feasibility Study for Houndé. Endeavour is

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**EXPLORATION REVIEW (CONTINUED)**

also exploring the advanced stage Kofi project in Mali and is working towards converting the Kofi North permit into a mining permit during 2014. During the year, the Corporation disposed of several of its non-material, exploration-stage properties located in Mali for total proceeds of \$20.7 million that comprised \$17.7 million of cash and \$3 million of shares held in Legend Gold Corp. The Liberia grassroots exploration properties were relinquished during the year.

During the year ended December 31, 2013, the exploration budget was reduced to approximately \$17.0 million from an original budget of \$20.0 million. The total expenditures were \$17.8 million and included over 90,000 metres of drilling. Over 70 % or \$13.2 million of this reduced program was directed towards Tabakoto and Kofi in Mali. Approximately \$2.2 million was focused on increasing resources and reserves at Nzema and the balance was allocated to regional programs.

***Kofi North Project, Mali***

The Kofi project is located to the northwest of Endeavour's Tabakoto Gold Mine and north of Randgold's Loulo Mine in southwestern Mali, approximately 400 kilometres by paved highway west of Bamako. The Kofi properties, which comprise the Kofi North project, cover approximately 449 square kilometres (230 km<sup>2</sup> granted and 219 km<sup>2</sup> under application) and contain nine deposits with mineral resources estimated at 500,000 ounces of Indicated (6.9 million tonnes at 2.25 g/t gold) and 702,000 ounces of Inferred (12.4 million tonnes at 1.77 g/t gold)<sup>1</sup>. Endeavour holds an 83.75% ownership in the Kofi North project, the Mali government holds 10% and the remaining 6.25% is held by a private party. Deposits identified to date are within 10 to 40 kilometres from the Tabakoto mill.

The Kofi North project exploration and development budget of \$3.3 million was planned to advance the project to application for a mining permit. Approximately \$2.9 million was spent in 2013 and included metallurgical and geotechnical assessments on the Kofi C deposit, which is the largest resource in the Kofi North project. The results of the metallurgical tests have been received and indicate a 93% gold recovery while the geotechnical review is still in progress. Baseline environmental studies were completed for the Kofi C deposit and the environmental permit has been granted.

A mining permit application was submitted on September 24, 2013 to the Malian government for the Kofi North permit. The application is under review by the DNGM and final approval is not expected before the end of the first quarter of 2014.

Exploration to date has focused on the southern section of the Kofi property, within trucking distance of the Tabakoto plant. However, there is significant potential in the northern portion of the property given that the two major structures that host more than 11 million ounces of resources on Randgold's Loulo property continue for 19 kilometres onto the Kofi property. A number of soil geochemistry targets along the trend of these structures have never been tested.

***Tabakoto Near Mine and Underground Exploration Program, Mali***

The revised 2013 budget for the Tabakoto exploration program was approximately \$8.0 million and was directed towards increasing resources and reserves to extend the mine life at Tabakoto. Approximately \$7.9 million was spent during the year ended December 31, 2013. The exploration at Tabakoto included several components:

- An underground drilling program of 25,000 metres for direct exploration and 39,000 metres for resources/reserves conversion at both Tabakoto and Segala;

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**EXPLORATION REVIEW (CONTINUED)**

***Tabakoto Near Mine and Underground Exploration Program, Mali*** (continued)

- A surface drilling program of approximately 14,000 metres of near mine RC drilling; and
- A large scale auger survey program was initiated and continues to facilitate the development of new exploration targets.

During the year ended December 31, 2013 a total of 62,000 metres of underground diamond drilling was completed in the Tabakoto and Segala underground mines and resulted in extending mineralization at depth and along strike at Tabakoto North and South, as well as converting the Indicated into Measured resources.

The Segala drilling has confirmed and improved resource classification as well as the geological interpretations. Channel sampling along the underground decline at Segala showed encouraging results and potential exploration targets, north of the main ore zones.

Infill drilling was conducted mainly at Djambaye to convert the remaining Inferred resources into Indicated resources. An update to the resource model has been completed resulting in an increase of the Measured and Indicated resources by 52,800 ounces.

An auger drilling program initiated on the Fougala soil geochemistry anomaly has defined two significant trends. These trends will be tested through an RC drilling program in 2014.

***Nzema Mine & Near Mine Exploration, Ghana***

The revised 2013 budget for Nzema exploration was approximately \$1.3 million, however the corporation increased its activity at Nzema in the fourth quarter resulting in the total spend of approximately \$2.2 million in 2013. The program included RC drilling and auger drilling. The exploration program objectives were to:

- Drill and convert the remaining Inferred resources into Indicated resources at the Adamus pit; and
- Develop new targets through an auger survey program.

***Finkolo Project, Mali South***

On March 6, 2012 the Corporation entered into a definitive agreement (the "Agreement") with Resolute for the sale and transfer of the licenses and associated property comprising the Finkolo joint venture in Mali for total consideration of \$20.0 million in cash. Endeavour held a 40% interest in the Finkolo joint venture, which was formed in 2003, by Endeavour's Etruscan subsidiary and Resolute Mining Limited ("Resolute"), which was the operator.

On September 26, 2013 the Corporation completed part of the sale of and transfer of the licenses and associated property comprising the Finkolo joint venture in Mali. This resulted in a realized gain of \$12.4 million, net of the payment of \$1.0 million of capital gains tax from the \$17.0 million of cash received; the remaining \$3.0 million of cash will be received upon the completion of a number of conditions.

***Ouaré Project, Burkina Faso***

A preliminary economic assessment on the Ouaré project was completed during the first quarter of 2013. The project is located 42 km northeast of the Youga mine and may provide additional source of feed for the Youga plant.

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**HEALTH AND SAFETY**

Endeavour emphasises employee and affected stakeholders' health and safety. The Corporation puts the highest priority on safe, healthy and environmentally sound work practices and systems. The Corporation's business principles and policies are based on targeting the achievement of "zero harm" performance. The Corporation's values and business principles on safety and health underpin its safety and health policy and represent the minimum guidelines for the Corporation and its employees in this respect.

**CORPORATE SOCIAL RESPONSIBILITY**

Endeavour sees itself as an integral part of the communities in which it operates, as well as a responsible development partner. Endeavour works in collaboration with and engages government, local communities and outside organizations to ensure it supports economic sustainability and social development, with projects including skills training and educational scholarship, healthcare, water and sanitation, public infrastructure maintenance, institutional capacity building and livelihood programs.

During 2013 Endeavour and the Monaco Red Cross ("MRC"), along with MRC's local affiliates in West Africa, teamed up to undertake a review of the corporate social responsibility status in the local areas around Endeavour's mines and to identify potential sustainable development projects that both organizations could promote. MRC visited the various mines, completed the review and prepared a report on the findings. The two parties are presently in discussions with the objective of identifying suitable projects for collaboration and on how to bring them to fruition.

In Ghana, the Corporation has provided training for more than 198 young people from local communities in a wide range of skills. This ongoing initiative within 15 communities has resulted in the majority of participants moving into work, either as self-employed tradespeople, or into positions within organizations including Endeavour and its contractors. Endeavour is continuing with a water sanitation and hygiene campaign in the local schools to create an improved learning environment and personal hygiene. During 2013, construction was completed on sanitation facilities for the Anwia and Aluku communities to improve sanitation in the project area. In addition a number of donations were made that included funding to provide roofing structures, books for schools, sporting equipment, and technical support to maintain water systems and other public infrastructure for local communities and schools. Endeavour continues to assist the local communities in maintaining water systems and other public infrastructure.

Endeavour has been actively involved in the local communities in Burkina Faso since 2006. Its major contributions to the local communities have included: construction of a maternity clinic, expansion of an elementary school, renovation of a medical clinic and most recently the construction of the community's first high school. Ongoing programs include provision of medical, school and recreational supplies for the local community as well as maintenance of key facilities such as the schools and clinics. During the third quarter of 2013 rainy season emergency repairs were carried out on the Zabre to Youga road and bridges whilst repair works to the Youga maternity ward and clinic roofs were completed. Endeavour also financed and oversaw the installation and commissioning of grid power supplies between Youga village and the high school complex providing reliable electricity directly to the school and also the off take infrastructure for Sonabel (the Burkina Faso National power authority) to install meters and arrange commercial deliveries to the local population around Youga.

On April 11, 2013 Endeavour announced, in conjunction with an industry group comprising AngloGold Ashanti, Avnel Gold Mining, IAMGOLD, Randgold Resources and Resolute Mining that it had contributed \$0.5 million to Malian humanitarian initiatives to be coordinated by the Ministry of Finance.

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**CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)**

The aggregate contribution of the industry group was \$3.15 million and a cheque for that amount was presented to President Dioncounda Traore and the Minister of Mines at a ceremony in Bamako on April 13, 2013. The industry group agreed to the terms of a funding structure with the Ministry of Finance. Under this structure, contributions will be administered by the Ministry of Finance through a special account for humanitarian initiatives in the areas of healthcare, education and agriculture, and the Ministry will provide regular reporting to the industry group concerning the usage and progress of those initiatives.

The Agbaou gold mine is expected to have several positive impacts on the social and local environment including:

- Creation of up to 900 jobs during construction and up to 650 during operations (including employees and contractors);
- Local infrastructure development and an increased standard of living;
- Economic growth in local areas through the provisions of services, construction and manufacturing sectors;
- Increased national income through taxes, royalties and fees;
- Training and essential skills to develop and promote local community members to be considered for employment opportunities. In addition, Endeavour has agreed to fund, along with other mining companies, a university scholarship and training fund; and
- Social and community development projects supported by a 0.5% of revenue contribution by Endeavour.

Endeavour has maintained its community engagement program since the start of its exploration activities in Côte d'Ivoire. In 2013, the most significant developments in the village of Agbaou have been the construction of a new community centre, the drilling of two water boreholes, refurbishment of three primary classrooms and the clearing of the new market place. The community centre is located in the centre of Agbaou Village and can accommodate up to 400 attendees for cultural or public events.

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**YEAR TO DATE FINANCIAL AND OPERATING RESULTS**

The following table summarizes the Corporation's financial and operational information for the last three fiscal years

(US dollars in thousands except ounces)	Year Ended December 31, 2013	Year Ended December 31, 2012 <sup>1</sup>	Year Ended December 31, 2011 <sup>2</sup>
Gold Revenues	\$ 443,314	\$ 365,318	\$ 158,403
Gold produced (ounces) <sup>3</sup>	324,275	220,462	92,309
Gold sold (ounces)	318,505	218,887	97,377
Total cash cost per gold ounce produced (excluding royalties) (\$/ounce) <sup>4</sup>	886	767	664
Cash flows from mine operations	87,100	184,467	60,484
Net earnings (loss) attributable to shareholders of Endeavour Mining Corporation	(332,456)	(15,486)	(23,777)
Basic earnings (loss) per share	(0.81)	(0.06)	(0.20)
Diluted earnings (loss) per share	(0.81)	(0.06)	(0.20)
Cash and cash equivalents and gold bullion	73,324	151,134	115,279
Total assets	1,273,993	1,726,124	962,215

<sup>1</sup> Results include the operations of the Tabakoto gold mine for the period October 18, 2012 to December 31, 2012.

<sup>2</sup> Results include the operations of the Nzema gold mine for the period December 6 to December 31, 2011.

<sup>3</sup> Includes 6,132 ounces of gold produced at the Agbaou gold mine pre-commercial production.

*Year ended December 31, 2013 compared to the year ended December 31, 2012*

- Revenue for the year ended December 31, 2013 increased \$78.0 million to \$443.3 million from \$365.3 million for the same period in 2012. The increase is attributable to an additional 99,618 ounces sold during the year ended December 31, 2013, of which 125,290 ounces were sold from Tabakoto in offsetting a decline of 6,557 ounces from Nzema and Youga. Although the number of gold ounces sold during year ended December 31, 2013 increased, the realized price of gold (before royalties) per ounce sold of \$1,392 for the year was well below the realized price of gold (before royalties) of \$1,669 per ounce for the same period in 2012. The impact of the gold price decline totals approximately \$88.2 million.
- Operating expenses for the year ended December 31, 2013 increased by \$135.5 million to \$312.6 from \$177.1 million for the same period in 2012 due to a full year's inclusion of operations from Tabakoto, higher costs incurred at Nzema due to slower than planned access to the Adamus pits and lower grade, which is now performing as planned and other tax accruals.
- Depreciation and depletion was \$95.6 million compared to \$74.1 million for the same prior year period in 2012, due to additional depreciation and depletion related to the fair value increase of the mining interests acquired from the Avion acquisition in the fourth quarter of 2012.
- Earnings from mine operations for the year ended December 31, 2013 were \$11.4 million compared to \$95.0 million for the same period in 2012. The decrease was a result of a lower gold price, higher costs to access the Adamus pits as well as the operating costs at Tabakoto.

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**YEAR TO DATE FINANCIAL AND OPERATING RESULTS (CONTINUED)**

*Year ended December 31, 2013 compared to the year ended December 31, 2012 (continued)*

- Corporate costs were \$21.5 million compared to \$21.7 million for the same period in 2012.
- During 2013, Endeavour recognized non-cash, \$364.2 million (net of \$142.7 million of deferred tax recoveries) impairment charges from an assessment carried out on its goodwill, mining properties and plant and equipment due to the sharp decline in the gold price (to a low of approximately \$1,180 per ounce in late June and December) seen during the second and fourth quarters of 2013 and the decline in Endeavour's share price along with many precious metal companies' share prices, which acted as indicators of potential impairment of the carrying value of its mineral interests. The pre-tax non-cash impairment charge of \$506.9 million is comprised of \$53.3 million of goodwill, \$368.3 million of mining properties, \$85.3 million of plant and equipment and a deferred income tax recovery of \$142.7 million. For further details of the non-cash \$364.2 million impairment charges, refer to the Impairment Charges section below.
- Share-based payments for the year ended December 31, 2013 were \$4.6 million compared to \$0.4 million for the same period in 2012. The stock-based payments arise from the expense of the vesting stock options issued in the first quarter of 2013, coupled with the issuance of 449,813 deferred share units and the change in the revaluation of the 336,994 deferred share units at December 31, 2013.
- Gains on financial instruments were \$48.8 million compared to losses of \$7.8 million for the same period in 2012. The gains arise primarily from a \$15.0 million unrealized gain on the fair value change of the Nzema and Tabakoto gold hedges due to the decrease in the gold price and a lower strike price, a \$29.3 million gain on the novation of the Nzema gold hedge and a \$12.8 million unrealized gain on the fair value change of the share purchase warrants due to the decrease in the Corporation's share price and the approaching expiry date.

These gains were offset by a \$1.6 million unrealized loss on the fair value change of the gold put option and a \$6.7 million net loss from imputed interest, foreign currency and loss on marketable securities.

- Gain on sale of the Finkolo joint venture of \$13.4 million (\$12.4 million net of capital gains tax). During the third quarter of 2013, the Corporation completed part of the sale of and transfer of the licenses and associated property comprising the Finkolo joint venture in Mali. The Corporation paid \$1.0 million of capital gains during the third quarter and received \$17.0 million of cash in the fourth quarter of 2013; the remaining \$3.0 million of cash is to be received upon the completion of a number of conditions.
- Gain on sale of subsidiaries of \$2.1 million. The gain arises from the Corporation's sale of several non-material, exploration-stage companies located in Mali. The Corporation received proceeds of C\$3.8 million comprised of C\$0.7 million cash (net of advisory fees) and 10 million shares of Legend Gold Corp ("Legend"). The Corporation received C\$0.7 million of cash and 5 million common shares of Legend. An additional 5.0 million common shares of Legend is due to be received upon the completion of the transfer registration for a permit (of which 2.5 million are to be received prior to May 21, 2014), which is currently in process.
- During the first half of 2013 the Corporation sold its accumulated holdings of 27,000 ounces of gold bullion at a realized price of \$1,396 per ounce for cash of \$37.7 million, realizing a loss of \$5.5 million.

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**YEAR TO DATE FINANCIAL AND OPERATING RESULTS (CONTINUED)**

*Year ended December 31, 2013 compared to the year ended December 31, 2012 (continued)*

During the first quarter of 2013 the Corporation wrote-down its holdings to net realizable value, incurring a write-down of \$2.1 million.

- Fiore Management & Advisory Corp., (formerly Endeavour Capital) generated income of \$0.05 million compared to a loss of \$2.8 million for the same period in 2012. On May 1, 2013 the Corporation's ownership was diluted from 100% to 19.9%, resulting in a loss of \$0.6 million. As a result of the dilution in ownership, the Corporation will account for its investment at FVTPL and will no longer consolidate Fiore Management & Advisory Corp's operations.
- On April 29, 2013 the Corporation sold its 38.5% interest in Namibia Rare Earth Inc., ("NREI") for cash proceeds of \$5.3 million. During the first quarter of 2013, the interest in NREI was reclassified to assets held for sale written-down to its net realizable value, resulting in a \$0.9 million write-down of investment in associate on reclassification to asset held for sale.
- Finance costs for the year ended December 31, 2013 were \$15.8 million compared to \$5.3 million for the same period in 2012. The increase in the finance costs is attributable to costs incurred (financing, legal, consulting, insurance and interest costs) to amend the Facility; re-profile the gold hedges and the purchase of 54,000 put options. During the third quarter of 2013, the Corporation incurred (cash spend) \$7.0 million of financing fees, \$3.2 million of legal, consulting and registration fees and \$5.3 million in advisory fees (the Corporation received back \$3.3 million in distributions, out of the \$5.3 million paid, as a repayment of the promissory note) to amend the Facility. These costs are being amortized over the five year term of the Facility. During the year ended December 31, 2013 \$9.0 million of interest was incurred on the Facility.
- The current income and other taxes expense for the year ended December 31, 2013 were \$19.3 million compared to \$13.0 million for the same period in 2012. The \$19.3 million of current income tax expense incurred for 2013 is comprised primarily of \$14.1 million and \$0.6 million of corporate tax incurred for the Youga gold mine and Tabakoto gold mine operations, respectively. Included in the \$14.1 million of income tax expense for the Youga gold mine is \$7.5 million of corporate tax audit assessment incurred relating to taxation years 2010 and 2011. \$3.1 million of the \$7.5 million assessed was paid in cash during the fourth quarter of 2013 and a further \$4.4 million has been accrued at the 2013 year end. The remaining \$6.6 million of corporate tax expense for the Youga gold operations relates to taxes incurred in the 2013 taxation year. The Tabakoto gold mine operations in Mali are required to pay the greater of a minimum tax calculated at 1% of gross revenue and 30% of taxable income. At present the Tabakoto gold mine is incurring a minimum tax expense. In addition to current income tax expenses, other taxes incurred during the year ended December 31, 2013 include \$1.0 million of capital gains tax incurred on the Finkolo sale, \$0.7 million of withholding taxes incurred for the dividend paid by the Corporation's subsidiary, and \$2.9 million of accrued withholding taxes on interest.

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**YEAR TO DATE FINANCIAL AND OPERATING RESULTS (CONTINUED)**

*Year ended December 31, 2013 compared to the year ended December 31, 2012 (continued)*

- The deferred income tax recovery for the year ended December 31, 2013 was \$135.1 million compared to a \$30.4 million expense for the same period in 2012. Due to the pre-tax non-cash impairment charges of \$506.9 million recorded during the second and fourth quarters of 2013, \$142.7 million of deferred income tax was recovered. For further details of the non-cash \$506.9 million impairment charges, refer to the Impairment Charges section below.
- Net loss attributable to shareholders of Endeavour of \$332.5 million, or (\$0.81) per share, compared to a net loss of \$15.5 million, or (\$0.06) per share, for the same period in 2012. The most significant factor contributing to the loss was the \$506.9 million non-cash impairment of goodwill, mineral property and property, plant and equipment. Other contributing factors were the lower gold prices, higher operating expenses, increased depreciation and depletion, finance costs and current income and other taxes and deferred income tax.

**QUARTERLY FINANCIAL AND OPERATING RESULTS**

The following tables summarize the Corporation's financial and operational information for the last eight quarters.

(US dollars in thousands except per share amounts)	December 31, 2013	September 30, 2013	June 30, <sup>2</sup> 2013	March 31, <sup>2</sup> 2013
Gold revenues	\$ 104,232	\$ 121,054	\$ 101,104	\$ 116,924
Gold ounces produced	80,623	88,445	75,421	73,654
Gold ounces sold	82,578	90,997	73,004	71,926
Cash flows from mine operations	3,800	31,300	13,900	38,100
Net (loss) earnings attributable to shareholders of Endeavour Mining Corporation	(74,719)	(15,266)	(257,609)	15,138
Basic earnings (loss) per share	(0.18)	(0.04)	(0.69)	0.04
Diluted earnings (loss) per share	(0.18)	(0.04)	(0.69)	0.03
Cash and cash equivalents	73,324	119,351	62,188	84,880
Total assets	1,273,993	1,396,041	1,290,235	1,765,996

<sup>1</sup> Cash flows from mine operations have been revised to exclude certain non-operating items that were previously included as operating.

(US dollars in thousands except per share amounts)	December 31, <sup>1</sup> 2012	September 30, 2012	June 30, <sup>2</sup> 2012	March 31, <sup>2</sup> 2012
Gold revenues	\$ 117,162	\$ 83,347	\$ 83,915	\$ 80,894
Gold ounces produced	68,299	49,472	50,728	51,963
Gold ounces sold	68,721	50,192	52,415	47,559
Cash flows from mine operations	53,100	40,700	56,100	24,400
Net earnings (loss) attributable to shareholders of Endeavour Mining Corporation	(23,065)	(1,102)	26,641	(17,960)
Basic earnings (loss) per share	(0.01)	-	0.11	(0.07)
Diluted earnings (loss) per share	(0.01)	-	0.11	(0.07)
Cash and cash equivalents	105,900	122,648	136,110	110,831
Total assets	1,726,124	1,018,879	999,862	994,320

<sup>1</sup> Results include the operations of the Tabakoto Gold Mine for the period October 18, 2012 to December 31, 2012.

<sup>2</sup> The cash flow includes approximately \$8.5 million of gold proceeds (related to three lots from March production) received in the first few days of April 2012

<sup>3</sup> Results include the operations of the Nzema Gold Mine for the period December 6 to December 31, 2011.

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**QUARTERLY FINANCIAL AND OPERATING RESULTS (CONTINUED)**

*Three months ended December 31, 2013 compared to the three months ended December 31, 2012*

- Revenue for the fourth quarter of 2013 decreased \$12.9 million to \$104.2 million from \$117.1 million for the same period in 2012. The decrease is primarily attributable to a lower gold price. Although the number of gold ounces sold during the quarter increased, the realized average gold price (before royalties) per ounce sold of \$1,262 for the fourth quarter of 2013 was below the realized average gold price (before royalties) of \$1,705 per ounce for the same period in 2012. The impact of the gold price decline totals approximately \$6.1 million.
- Operating expenses for the fourth quarter of 2013 increased by \$20.3 million to \$92.8 million from \$72.5 million for the same period in 2012 due to a full quarter of inclusion of operations from Tabakoto, the expanded mill at Tabakoto, higher costs incurred at Nzema due to slower than planned access to the Adamus pits and lower grade, which is now performing as planned and the accrual of other taxes.
- Depreciation and depletion for the fourth quarter of 2013 was \$25.5 million compared to \$22.7 million for the same period in 2012 due to additional depreciation and depletion related to the fair value increase of the mining interests acquired from the Avion acquisition in the fourth quarter of 2012.
- Loss from mine operations for the fourth quarter of 2013 was \$19.7 million compared to earnings of \$15.2 million for the same period in 2012. The decrease was a result of lower gold prices, higher operating costs at Nzema and Youga and the accrual of other taxes.
- Corporate costs for the fourth quarter of 2013 were \$7.7 million compared to \$9.2 million for the same period in 2012.
- Share-based payments for the fourth quarter of 2013 were \$0.4 million compared to \$nil million for the same period in 2012. The stock-based payments for the fourth quarter of 2013 arise from the expense of the vesting stock options issued in the first quarter of 2013, coupled with the issuance of 33,238 deferred share units and the change in the revaluation of the 336,994 deferred share units at December 31, 2013.
- Gains on financial instruments for the fourth quarter of 2013 were \$14.3 million compared to \$13.5 million for the same period in 2012. The gains arise primarily from a \$12.7 million unrealized gain on the fair value change of the Nzema and Tabakoto gold hedges due to the increase in the gold price and a higher strike price and a \$0.6 million unrealized gain on the fair value change of the gold put option program was incurred as a result of 9,000 gold put options expiring and mark to market valuations.
- Finance costs for the fourth quarter of 2013 were \$7.2 million compared to \$1.7 million for the same period in 2012. The increase in the finance costs is attributable to amortization of costs incurred to amend the Facility. These costs are being amortized over the five year term of the Facility. During the fourth quarter of 2013, \$3.2 million of interest was incurred on the Facility.
- The current income and other tax expense for the fourth quarter of 2013 were \$11.1 million compared to \$5.9 million for the same period in 2012. The 2013 current income tax expense incurred for the fourth quarter is comprised of \$7.5 million of corporate tax audit assessment with respect to the Youga gold mine for its taxation years 2010 and 2011. \$3.1 million of the \$7.5 million assessed was paid in cash during the fourth quarter of 2013 and a further \$4.4 million has been accrued at the 2013 year end.

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**QUARTERLY FINANCIAL AND OPERATING RESULTS (CONTINUED)**

*Three months ended December 31, 2013 compared to the three months ended December 31, 2012 (continued)*

The original tax assessment for the Youga gold mine was approximately \$27.9 million. The Tabakoto gold mine operations in Mali are required to pay the greater of a minimum tax calculated at 1% of gross revenue and 30% of taxable income. Included in the \$11.1 million of current income tax expense incurred for the 2013 fourth quarter is the \$0.6 million of minimum tax expense for the Tabakoto gold mine.

In addition to current income tax expenses, other taxes incurred for the fourth quarter of 2013 include \$2.9 million of accrued withholding taxes for the Nzema gold mine operations.

- The deferred income tax recovery for the fourth quarter of 2013 was \$21.8 million compared to a \$23.9 million expense for the same period in 2012. Due to the pre-tax non-cash impairment charges of \$55.7, net of tax (\$74.6 million before taxes) recorded during the fourth quarter of 2013, 18.9 million of deferred income tax was recovered. For further details of the non-cash \$509.6 million impairment charges for the year ended December 31, 2013, refer to the Impairment Charges section below.
- Net loss attributable to shareholders of Endeavour of \$74.7 million, or (\$0.18) per share, compared to a net loss of \$23.1 million, or (\$0.01) per share, for the same period in 2012. The most significant factor contributing to the loss was the \$74.6 million non-cash impairment of mineral property and property, plant and equipment. Other contributing factors were the lower gold prices, higher operating expenses, increased depreciation and depletion, finance costs and current income and other taxes and deferred income tax.

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**STATEMENT OF FINANCIAL POSITION REVIEW**

**Assets**

**Cash**

At December 31, 2013, Endeavour had cash and cash equivalents of \$73.3 million, (December 31, 2012 – \$105.9 million). Several items impacting cash were as a result of timing of expenditures being advanced from 2014 to 2013 due to the completion of Agbaou construction ahead of schedule (with cash expenditure having occurred in 2013 with minimal project spend in 2014), prepayments of approximately \$7 million on owner mining equipment for Tabakoto and over 6,000 ounces of gold from Agbaou that were not shipped and sold until January 7, 2013.

**Cash - restricted**

On July 31, 2012 the Corporation and CAL Bank Limited ("CAL") entered into a facility agreement whereby CAL is to provide a bank guarantee (the "Bank Guarantee") to enable the Corporation to fulfill its reclamation obligations with the Environmental Protection Agency of Ghana ("EPA") in respect of disturbed mining lands at Nzema in the Western Region of Ghana. Under the Bank Guarantee the Corporation has provided \$3.3 million in cash collateral to CAL plus \$1.2 million by way of security to the EPA. On August 31, 2013, the Bank Guarantee with CAL was renewed for another year. The Bank Guarantee is renewable annually subject to agreement between the parties.

**Gold bullion**

During the second quarter of 2013 the Corporation sold all of its accumulated holdings of 27,000 ounces of gold bullion at a realized price of \$1,396 per ounce for cash of \$37.7 million, realizing a loss of \$5.5 million. At December 31, 2012 the Corporation held 27,000 ounce of gold bullion with a fair value of \$45.2 million.

**Marketable Securities**

The fair value of marketable securities has decreased from \$7.8 million at December 31, 2012 to \$1.7 million at December 31, 2013 due to a decrease in current valuations of marketable securities held, in line with the overall market performance for junior resource company share prices during 2013, the disposition of some of its positions and the dilution of Endeavour Capital. As part of the Legend's sale, the Corporation received 4.8 million common shares of Legend with a four month hold and is expected to receive an additional 5 million common shares of Legend upon the completion of the transfer registration for a permit, which is currently in process.

**Trade and other receivables**

Trade and other receivables have increased from \$12.6 million at December 31, 2012 to \$38.7 million at December 31, 2013. The primary reason for the increase in trade and other receivables is the outstanding value added tax ("VAT") due from the various West African governments. As part of the working capital review process, initiatives are underway to obtain VAT reimbursement, offset VAT against other taxes and potentially to sell a portion of these receivables, which make up a majority of the balance of receivables. The Malian government has recently indicated their intention to start reimbursing VAT.

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***Inventories***

Inventories have decreased by \$11.5 million from \$73.9 million at December 31, 2012 to \$62.4 million at December 31, 2013. The decrease is due to lower levels of inventories, including a reduction of \$1.8 million of gold in circuit, \$4.3 million in ore stockpiles and \$4.0 million in spare parts and supplies. Endeavour is working on improving working capital efficiencies through joint purchasing and sharing parts and supplies at all of its mines, as well as selling inventory that is redundant or not required at the mine sites. A third party consultant has been assisting with this review and harmonizing and strengthening the purchasing cycle at the mine sites.

***Prepaid expenses and other***

Prepaid expenses and other increased from \$21.2 million at December 31, 2012 to \$24.3 million at December 31, 2013 primarily due to prepaying \$6.8 million in December for owner mining equipment orders at Tabakoto, as well as prepaying suppliers for reagents and insurance. As part of the working capital review process, management is focusing on joint purchasing, better terms to reduce requirement for prepayments and a general reduction in levels of reagents and supplies held across the group.

***Financial derivative asset***

On July 11, 2013, as a gold price risk management instrument, the Corporation purchased, for \$3.5 million, 54,000 ounces of gold put options at a strike price of \$1,150 with eighteen equal monthly settlements from August 2013 to January 2015. This period corresponds to the higher capital expenditure timeframe while Agbaou construction and ramp up were being completed and the Segala underground mine is being brought into commercial production. Endeavour believes the best long term risk management is achieved through lower, sustainable cost management activities. As at December 31, 2013 39,000 ounces of gold put options remain outstanding with a fair value of \$1.9 million. During the year ended December 31, 2013 15,000 ounces of gold put options expired, and an unrealized loss of \$1.6 million was incurred on the mark to market of the outstanding put options at December 31, 2013.

***Assets held for sale***

During the third quarter of 2013 the Corporation completed part of the sale of and transfer of the licenses and associated property comprising the Finkolo joint venture in Mali. This resulted in a realized gain of \$13.4 million (\$12.4 million net of capital gains tax), and net cash proceeds of \$16.0 million (net of a \$1 million of capital gains tax payment). As a result there are no longer any assets held for sale at December 31, 2013.

***Goodwill***

During the second quarter of 2013, Endeavour recognized a non-cash impairment charge of \$53.3 million related to goodwill, as discussed in the Impairment Charges section. The non-cash impairment charge is comprised of \$51.2 million of goodwill relating to the Adamus Resources Ltd. merger and \$2.1 million related to the Etruscan Resources Inc. acquisition.

Goodwill had arisen because of the requirement to record a deferred tax liability for the difference between the assigned accounting values and the tax bases of assets acquired and the liabilities assumed at amounts that do not reflect fair value.

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***Long-term receivable***

The long-term receivable of \$4.3 million refers to the fuel duty that is recoverable from the Government of Mali. During the first half of 2013 the Corporation received \$2.4 million of proceeds from the Government of Mali pertaining to the fuel duty recoverable.

***Investment in associate***

The decrease in the investment in associate is a result of the Corporation having sold its 38.5% interest in NREI, during the second quarter of 2013 for cash proceeds of \$5.3 million.

***Promissory note and other assets***

The promissory note and other assets of \$10.2 million at December 31, 2013 (December 31, 2012 - \$13.1 million) pertains to the fair value of the \$20.0 million consideration for the sale of the Advisory Business comprised of; a \$10 million promissory note, the \$2.5 million intellectual property assignment fee related to the Endeavour Financial brand name and the \$7.5 million service fee related to future earnings and the investment in Fiore Management & Advisory Corp (formerly Endeavour Capital & Advisory (Canada) Ltd). The consideration will be received out of the Advisory Business' future profits which are uncertain and therefore have been valued on a discounted cash flow basis. During the year ended December 31 2013, the Corporation received a distribution of \$3.3 million. The Corporation also recognized \$2.2 million of imputed interest income and an unrealized loss of \$1.8 million on the promissory note toward par value of \$20.0 million.

***Trade and other payables***

Trade and other payables have increased from \$86.0 million at December 31, 2012 to \$94.2 million at December 31, 2013, primarily due to the cash management in paying suppliers at Nzema and Tabakoto, approximately \$6.8 million of payables related to the Agbaou project that remained outstanding and approximately \$4.0 million of other tax accruals.

Endeavour reviews its compensation practises on an ongoing basis and is dedicated to maintaining an effective compensation program that is market competitive, aligns with business strategy and shareholder interests, and attracts and retains a high-performing executive team. The executive compensation program includes annual bonuses linked to operational performance. In 2013, Endeavour met all of its key operating and financial goals in a very challenging year for the entire gold mining industry. Despite strong operating performance, total shareholder returns during 2013 did not meet expectations with the significant decline in the spot gold price during the first half of the year being a primary factor. With a view to directly aligning executive compensation with share value, it was determined that 50% of the senior executive bonuses awarded for 2013 would be deferred until shareholders' experienced a significant recovery of share value. At the end of 2013, Endeavour's share price closed on the TSX at C\$0.48. The share value recovery threshold was set at C\$0.96 (i.e. a 100% increase over the 2013 closing price).

On March 13, 2014 the share value recovery threshold was achieved when Endeavour's 5 day volume weighted average price on the TSX exceeded the C\$0.96 target.

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***Credit facilities***

On July 24, 2013 the Corporation signed a \$350 million amended senior secured revolving corporate loan facility (the "Facility") with UniCredit Bank AG, BNP Paribas, ING Bank NV, Société Générale and Deutsche Bank AG. Up to \$300 million of the Facility can be used for general corporate purposes including working capital and capital expenditures. The Facility is secured by shares of Endeavour's material gold mining subsidiaries and certain material assets of those subsidiaries.

The key terms of the Facility include:

- Maturity date is five years from signing or July 24, 2018, and the available Facility amount declines with six equal semi-annual reductions of \$58.3 million commencing January 1, 2016;
- The Facility incorporates standard corporate financial covenants, including:
  - Interest Cover shall not be less than 3 to 1, calculated on a rolling 12 month basis
  - Net Debt to EBITDA shall not exceed 3.25 times, calculated on a rolling 12 month basis
  - Minimum tangible net worth of \$600 million; and
- Interest is based on LIBOR plus a margin ranging between 3.75% and 5.5% per annum (sliding scale based on the actual Net Debt to EBITDA ratio)

***Derivative financial liabilities***

At December 31, 2013, derivative financial liabilities of \$20.9 million (December 31, 2012 - \$78.0 million) were comprised of the fair value of the outstanding gold price protection programs and the share purchase warrants.

In the current, challenging gold price environment Endeavour decided to implement risk management measures to protect against a significant decrease in the gold price, particularly while Agbaou was being constructed and ramped up. Endeavour put in place the put option program below and also re-distributed the historical Nzema hedges within its banking group. This redistribution of the hedges does not have a material impact on future cash proceeds to be received from delivering gold into the hedges. On July 29, 2013 (in connection with the completion of the Facility) Endeavour re-distributed a portion of the 96,163 ounces of remaining forward contracts (originally linked to the former Nzema project financing), from UniCredit to several of the new lenders. The amended strike price has increased from \$1,061.75 per ounce to a weighted average strike price \$1,331.87 per ounce. On the close out of the former hedge under the Nzema project financing a \$300 per ounce increase in the strike price gave rise to a crystallized loss; this crystallized loss will be spread and paid over the remaining hedge deliveries, resulting in the net proceeds to be received of \$1,031.87 per ounce (\$1,331.87 per ounce less the loss of \$300 per ounce). As a result, the cost of re-striking the hedge is approximately \$2.87 million and will be paid proportionately with the hedge deliveries during 2014 to 2016.

The traded share purchase warrants are valued by taking the publicly traded market price. At December 31, 2013 the derivative liability pertaining to the share purchase warrants was \$nil (December 31, 2012 - \$12.8 million), as the warrants expired in February 2014. At December 31, 2013 the derivative liability pertaining to the gold price protection programs was \$20.9 million (December 31, 2012 - \$65.1 million)

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***Provisions***

*Environmental rehabilitation provision*

The environmental rehabilitation provision refers to the acquisition, development, construction and normal operations of mining property, plant and equipment, due to government controls and regulations that protect the environment on the closure and reclamation of mining properties. Endeavour has future obligations to retire its mining assets, including dismantling, remediation and ongoing treatment and monitoring of sites. The provisions for rehabilitation are based on expected costs and information available at the reporting date. The exact nature of environmental issues and costs, if any, which the Corporation may encounter in the future are subject to change, primarily because of the changing character of environmental requirements that may be enacted by governmental agencies.

The Corporation's environmental rehabilitation provision consists of reclamation and closure costs for the Nzema, Tabakoto, Youga and Agbaou mines.

*Long-term compensation award – Gold Strategy*

In early 2009, Endeavour launched its gold investment strategy, which is the basis of the Corporation's gold mining business. The stated vision of this "Gold Strategy" was to ultimately create an intermediate-sized gold company within Endeavour. The Gold Strategy was financed with the proceeds from the liquidation of Endeavour's merchant banking portfolio, the sale of its advisory businesses, and a C\$115 million equity financing. This initial capital, supplemented with subsequent equity issuances, has been used to acquire a group of complementary gold mining assets. By the end of 2013, Endeavour was an established gold producer with three operating mines producing gold at a rate of over 300,000 ounces per year, a fourth gold mine in startup, and an attractive gold project in the permitting stage.

In order to retain, attract, and motivate a group of specialist professional employees with the skills and experience necessary to significantly enhance the profitability and growth of Endeavour's gold business, a long term bonus policy (the "Gold LTI Policy") was established concurrently with the implementation of the Gold Strategy. To ensure that the interests of Endeavour's management team were aligned with shareholders over the long term, the Gold LTI Policy was designed to compensate management when shareholders receive a direct benefit or realization. An award under the Gold LTI Policy (a "Gold LTI Award") is calculated as 10% of the increase in value of Gold Strategy assets and is crystallized and becomes payable upon the sale of a material gold asset, the realization of increased value on completion of a corporate transaction, and certain other events necessary to protect the integrity of the Gold LTI Policy.

During the Gold Strategy launch and initial growth period from 2009 to 2012, a crystallization event occurred when, following the accumulation of a 43% interest in Crew Gold Corporation through a series of share purchases, the Corporation subsequently sold its Crew investment in September 2010. The sale resulted in an \$80.0 million realized gain over the asset cost base of the investment, which resulted in the disbursal of a Gold LTI Award of \$8.0 million in aggregate under the Gold LTI Policy. No other crystallization events have occurred in the implementation of the Gold LTI Policy and therefore no other Gold LTI Awards have been paid or accrued to date.

The calculation of a Gold LTI Award is dependent on the nature of the crystallization event that gives rise to the obligation to make a Gold LTI Award. Intermediate gold producers with attractive growth profiles have been attractive acquisition targets for larger gold producers. In the event an offer is made for the Corporation that is

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**Provisions** (continued)

*Long-term compensation award – Gold Strategy* (continued)

accepted by its shareholders, a Gold LTI Award would be determined as 10% of the acquisition value in excess of the equity cost base of the Corporation on an issued share basis. The equity cost base is the accumulation of the historic market values (or strike prices of exercised stock options and warrants) for all of the shares issued by Endeavour to build the gold company, which as of December 31, 2013 was equivalent to approximately C\$955 million (or C\$2.31 per issued share) as illustrated in the following table:

Equity cost base - Endeavour Gold Strategy	Shares	Cost per Share*
A) Issued shares prior to Gold Strategy launch (Dec 31, 2008)	32,747,901	
Escrow cancellation (March 2010)	(1,074)	
Fund raising for Gold Strategy (CDN \$115M, February 2009)	64,975,000	
	97,721,827	C\$1.77
B) Issued to acquire Etruscan Resources	15,401,909	C\$2.72
C) Issued to acquire Adamus Resources Pty	129,340,958	C\$2.48
D) Issued to acquire Avion Gold Corporation	162,055,600	C\$2.50
E) Issued to complete Axmin property purchase (Avion acquisition)	328,500	C\$2.40
	404,848,794	
Shares issued on exercise of options/warrants	5,873,950	C\$1.73
Total issued shares as at December 31, 2012	410,722,744	C\$2.32
Shares issued on exercise of options/warrants	2,320,549	
Total issued shares as at December 31, 2013	413,043,293	C\$2.31
Total cost base of current issued shares		C\$955 Million

\* Cost per Share is the historic Endeavour share prices at the time of issue (or strike prices of exercised options and warrants)

This cost base methodology was designed to directly align the interests of Endeavour's management team with the market value and potential long-term acquisition value of the Corporation realizable by Endeavour's shareholders.

Gold LTI Awards payable on a crystallization event will be calculated based on the value of the actual consideration exchanged, which may vary significantly from an estimate derived from Endeavour's market capitalization.

**Current and deferred income taxes**

The current income tax liability increased by \$0.2 million during the year ended December 31, 2013 from \$12.0 million at December 31, 2012 to \$12.2 million at December 31, 2013. The increase in the current income tax liability is a net result of accruing for the outstanding corporate income taxes payable for the Youga operations in Burkina Faso for the year ended December 31, 2013 of \$2 million; accruing \$4.4 million for the tax audit assessment for the Youga operations for the taxation years 2010 and 2011; and accruing for the required

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***Current and deferred income taxes*** (continued)

minimum corporate tax in Mali for the Tabakoto operations. Also included in the 2013 income tax payable balance is \$2.9 of interest withholding tax related to the Nzema operations.

The deferred income tax liability decreased by \$119.6 million from \$178.3 million at December 31, 2012 to \$58.7 million at December 31, 2013. The changes to the deferred income tax liability and deferred income tax asset is due to the pre-tax non-cash impairment charges of \$506.9 million related to the mining properties and plant and equipment recorded during the second and fourth quarters of 2013; \$142.7 million of deferred income tax was recovered. For further details of the pre-tax non-cash \$506.9 million impairment charges, refer to the Impairment Charge section.

The deferred income tax liability and asset arise as a result of future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for unused tax losses and other income tax deductions, primarily from the acquisitions of Avion and Etruscan and the merger of Adamus.

**IMPAIRMENT CHARGE**

During the year ended December 31, 2013, the Corporation recognized a non-cash, \$506.9 million impairment charge (gross of tax) from an assessment carried out on its mineral interests due to the sharp decline in the gold price (to a low of approximately \$1,180 per ounce in late June and December) seen during the second and fourth quarters of 2013 and the decline in Endeavour's share price along with many precious metal companies' share prices, which acted as indicators of potential impairment of the carrying value of its mineral interests. The pre-tax non-cash \$506.9 million impairment charge is comprised of \$53.3 million of goodwill, \$368.3 million of mining properties, \$85.3 million of plant and equipment and a deferred income tax recovery of \$142.7 million.

The \$509.6 million impairment for the year is comprised of a \$74.6 million impairment recorded in the fourth quarter and a \$432.3 million impairment recorded in the second quarter of 2013. During the annual impairment indicator assessment the Cash Generating Units ("CGU") were valued and compared to the year end carrying value of the mineral interests.

The following table summarizes the impairment charges related to goodwill, mining properties, plant and equipment and the related deferred tax recovery by CGU for the year ended December 31, 2013:

CGU	Goodwill	Mining properties	Plant & equipment	Deferred tax recovery	Total after-tax impairment
Nzema	\$ 51,254	\$ 280,648	\$ 54,966	\$ (117,465)	\$ 269,403
Youga	2,064	50,697	13,615	(11,254)	55,122
Tabakoto	-	29,849	16,736	(13,975)	32,610
Ouaré	-	3,874	-	-	3,874
Exploration	-	3,169	-	-	3,169
<b>Total impairment</b>	<b>\$ 53,318</b>	<b>\$ 368,237</b>	<b>\$ 85,317</b>	<b>\$ (142,694)</b>	<b>\$ 364,178</b>

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**IMPAIRMENT CHARGE**

The following table summarizes the impairment charges related to goodwill, mining properties, plant and equipment and the related deferred tax recovery by CGU for the fourth quarter 2013:

CGU	Goodwill	Mining properties	Plant & equipment	Deferred tax recovery	Total after-tax impairment
Youga	\$ -	\$ 22,335	\$ 5,645	\$ (4,896)	\$ 23,084
Tabakoto	-	29,849	16,736	(13,975)	32,610
<b>Total impairment</b>	<b>\$ -</b>	<b>\$ 52,184</b>	<b>\$ 22,381</b>	<b>\$ (18,871)</b>	<b>\$ 55,694</b>

**LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2013, Endeavour had cash and cash equivalents of \$73.3 million, (December 31, 2012 – \$105.9 million). In addition, at December 31, 2013, Endeavour had \$1.7 million of marketable securities (December 31, 2012 \$7.8 million). Working capital at December 31, 2013 was \$90.3 million (December 31, 2012 - \$174.9 million).

The change in cash during the year ended December 31, 2013 is primarily attributable to the following key items:

- \$221.1 million investment in capital projects (including \$130.5 million related to Agbaou construction) and capitalized exploration;
- \$135.8 million cash margin generated from the three operating mines;
- \$84.6 million drawn (net of fees) from the amended corporate facility;
- \$37.7 million proceeds from sale of gold bullion;
- \$29.1 million of interest and taxes;
- \$22.0 million of corporate costs incurred;
- \$17.0 million proceeds from the sale of the Finkolo joint venture (gross of Capital Gains Tax);
- \$6.4 million change in working capital (net of deposits for owner mining equipment above);
- \$6.8 million of deposits made for equipment to convert to owner mining at Tabakoto;
- \$5.3 million proceeds from sale of NREI;
- \$3.7 million of exploration expenditure;
- \$3.5 million purchase of gold price protection through the purchase of put options.

During the fourth quarter ended December 31, 2013, the Corporation invested \$55.8 million from its operating cash margin into its operations and exploration programs. Several items impacting cash were as a result of timing of expenditures being advanced from 2014 to 2013 due to the completion of Agbaou construction ahead of schedule (with cash expenditure having occurred in 2013 with minimal project spend in 2014), prepayments of approximately \$7 million on owner mining equipment for Tabakoto and over 6,000 ounces of gold from Agbaou that were not shipped and sold until January 7, 2013. Of the total invested amount, a net \$217.4 million was capitalized and \$3.7 million was expensed as exploration. These investments in operational improvements and growth include:

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**LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)**

○ Agbaou project	\$ 130.5 million
○ Tabakoto capital development	\$ 31.6 million
○ Nzema capital development	\$ 15.8 million
○ Sustaining capital at Nzema	\$ 9.0 million
○ Sustaining capital at Youga	\$ 1.5 million
○ Sustaining capital at Tabakoto	\$ 5.4 million
○ Nzema, Youga & Tabakoto "near-mine" exploration	\$ 10.5 million
○ Houndé project	\$ 9.3 million
○ Kofi project	\$ 2.9 million
○ Ouare project	\$ 0.9 million
○ Regional exploration	<u>\$ 3.7 million</u>
	<u>\$ 221.1 million</u>

At December 31, 2013, the Corporation had a working capital position of \$90.3 million. In the opinion of management, Endeavour's cash position at December 31, 2013, together with anticipated cash flows, are sufficient to support the Corporation's on-going operational requirements and investments.

**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

***Derivative instrument liability***

The following tables detail the call options and forward contracts pertaining to the derivative instrument liability of the gold price protection programs for the Tabakoto and Nzema Gold Mines as at December 31, 2013.

Nzema hedging includes:

(US dollars in thousands except price per ounce) Period	Forward contracts (ounces)	Price Per Ounce	Fair Value
2014	32,000	\$ 1,331.87	\$ 5,295
2015	32,000	1,331.87	5,126
2016	32,163	1,331.87	5,186
<b>Total</b>	<b>96,163</b>	<b>\$ 1,331.87</b>	<b>\$ 15,607</b>

On July 29, 2013 (in connection with the completion of the Facility) Endeavour re-distributed a portion of the 96,163 ounces of remaining forward contracts (originally linked to the former Nzema project financing), from UniCredit to several of the new lenders. The amended strike price has increased from \$1,061.75 per ounce to a weighted average strike price \$1,331.87 per ounce. On the close out of the former hedge under the Nzema project financing a \$300 per ounce increase in the strike price gave rise to a crystallized loss; this crystallized loss will be spread and paid over the remaining hedge deliveries, resulting in the net proceeds to be received of \$1,031.87 per ounce (\$1,331.87 per ounce less the loss of \$300 per ounce). As a result, the cost of the re-striking the hedge is approximately \$2.87 million and will be paid proportionately with the hedge deliveries during 2014 to 2016.

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**CONTRACTUAL OBLIGATIONS AND COMMITMENTS (CONTINUED)**

***Derivative instrument liability*** (continued)

Tabakoto hedging includes:

(US dollars in thousands except price per ounce) Period	Call options (ounces)	Price Per Ounce	Fair Value
2014	12,132	\$ 900.00	\$ 3,555
2015	6,066	900.00	1,707
Total	18,198	\$ 900.00	\$ 5,262

***Contracts and Leases***

The Corporation has commitments in place at its four mines for drill and blasting services, load and haul services and supply of explosives and supply of hydrocarbon services. The terms extend through the period July 1, 2013 to February 2016 and require the contractors to drill and blast a minimum agreed amount of BCM.

The Corporation has four contracts in place at Nzema to purchase on average 14,000 tonnes of higher grade ore per month from third parties that extend through the period January 1, 2014 to November 30, 2014.

The Corporation is subject to operating and finance lease commitments in connection with the purchase of mining equipment and light duty vehicles and workshop from several suppliers totaling \$1.8 million. The terms extend through the period July 1, 2013 to February 2015. The Corporation is also subject to operating lease commitments in connection with rented office premises.

The table below summarizes the commitments for the service contracts and operating lease commitments;

(US dollars in thousands)	Within 1 year	2-3 years	4-5 years	After 5 years	Total
Minimum operating lease payments	396	-	-	-	396
	\$ 396	\$ -	\$ -	\$ -	\$ 396

On March 7, 2014 the Corporation's Malian subsidiary, Segala Mining Corporation SA ("Segala"), entered into a 5 year \$18 million equipment lease financing facility (the "Equipment Lease") with BNP Paribas's bank subsidiary in Abidjan, Banque Internationale pour le Commerce et l'Industrie de la Côte d'Ivoire ("BICICI"). The Equipment Lease will be used to purchase a portion of the owner-operated mining equipment for the Tabakoto and Segala underground developments. Segala will pay a fixed rate of 9.5% per annum to amortise the principal and pay interest to BICICI. Segala also has a purchase option to buy the equipment outright at the end of the lease life for 0.5%. The Equipment Lease will be treated as a finance lease, and is guaranteed by the Corporation.

The Corporation is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Corporation cannot reasonably predict the likelihood or outcome of these actions. The Corporation does not believe that adverse decisions in any other pending or threatened proceedings related to any matter, or any amount which may be required to be paid by reason thereof, will have a material effect on the financial condition or future results of operations.

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**CONTRACTUAL OBLIGATIONS AND COMMITMENTS (CONTINUED)**

**Contracts and Leases** (continued)

The Corporation's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Corporation believes its operations are materially in compliance with all applicable laws and regulations. The Corporation has made, and expects to make in the future, expenditures to comply with such laws and regulations.

**OUTSTANDING SHARE DATA**

Endeavour's authorized capital is US\$20,000,000 divided into 1,000,000,000 ordinary shares with a par value of US \$0.01 each and 1,000,000,000 undesignated shares; no undesignated shares have been issued. The table below summarizes Endeavour's share structure at March 18, 2014.

Shares issued and outstanding	413,043,293
Stock options	24,560,352

**NON-GAAP MEASURES**

**Cash margin**

The Corporation reports cash margin as revenues less cash costs per gold ounce sold and royalties.

The following table provides a reconciliation of cash margin per ounce of gold sold for the Nzema, Tabakoto and Youga gold mines, which includes the ounces sold from ore purchased from an independent producer, for the three months and years ended December 31, 2013 and 2012:

	Three months ended December 31,		Years ended December 31,	
	2013	2012 <sup>1</sup>	2013	2012 <sup>1</sup>
(US dollars in thousands except ounces)				
Revenues	\$ 104,232	\$ 123,954	\$ 443,314	\$ 384,539
Less: royalties	(5,686)	(6,792)	(24,001)	(19,221)
Less: cash cost for sold ounces (excluding royalties) <sup>2</sup>	(75,239)	(67,441)	(283,542)	(166,906)
<b>Total cash margin</b>	<b>23,307</b>	<b>49,721</b>	<b>135,771</b>	<b>198,412</b>

<sup>1</sup> Results include the operations of the Tabakoto Gold Mine for the period October 18, 2012 to December 31, 2012.

<sup>2</sup> Total cash costs are a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 42.

**Total cash costs**

The Corporation reports total cash costs on the basis of ounces produced. In the gold mining industry, these are common performance measures but do not have any standardized meanings. The Corporation follows the recommendation of the Gold Institute Production Cost Standard. The Corporation believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this information to evaluate the Corporation's performance and ability to generate cash flows. 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 GAAP.

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**NON-GAAP MEASURES (CONTINUED)**

**Total cash costs** (continued)

The following table provides a reconciliation of total cash costs per ounce of gold sold for the Nzema, Tabakoto and Younga gold mines, which includes the ounces sold from ore purchased from an independent producer, for the three months and years ended December 31, 2013 and 2012:

	Three months ended December 31,		Years ended December 31,	
	2013	2012 <sup>1</sup>	2013	2012 <sup>1</sup>
(US dollars in thousands except ounces)				
Operating expenses from continuing mining operations	\$ 92,782	\$ 72,480	\$ 312,609	\$ 177,125
Less: non-cash and exceptional item adjustments				
	(17,543.74)	(1,726)	(31,083.26)	(2,193)
Less: Stockpile valuation adjustment	-	-	(2,225)	-
Less: Ghanaian tax audit assessment	-	-	-	(4,713)
Less: Arbitration settlement	-	(3,313)	-	(3,313)
Add: load & haul price adjustment	-	-	4,241	-
<b>Total cash cost (excluding royalties)</b>	<b>75,239</b>	<b>67,441</b>	<b>283,542</b>	<b>166,906</b>
Divided by ounces of gold sold	82,578	68,721	318,505	218,887
<b>Total cash cost per ounce of gold sold<sup>1</sup></b> <b>(excluding royalties)</b>	<b>\$ 911</b>	<b>\$ 982</b>	<b>\$ 890</b>	<b>\$ 763</b>

<sup>1</sup> Results include the operations of the Tabakoto Gold Mine for the period October 18, 2012 to December 31, 2012.

**All-in sustaining costs**

The Corporation is reporting all-in sustaining costs per ounce. The methodology for calculating all-in sustaining costs per ounce was developed internally and is calculated below. However, as recommended by the World Gold Council, effective from January 1, 2014 the Corporation will conform its all-in sustaining costs definition to the measure as set out in the guidance note released by the World Gold Council on June 27, 2013. This non-IFRS measure provides investors transparency to the total period-attributable cash cost of producing an ounce of gold, and may aid in the comparison with other gold mining peers.

All-in sustaining costs are the sum of total cash costs for gold ounces sold, royalties, corporate costs, sustaining capital and near-mine exploration.

	Year ended December 31, 2013
(US dollars in thousands except ounces)	
Cash cost for ounces sold (excluding royalties)	\$ 283,542
Royalties	24,001
Corporate G&A (attributable to operations) <sup>1</sup>	16,088
Sustaining capital	15,924
Near mine exploration	10,482
<b>All-in sustaining costs sold</b>	<b>\$ 350,037</b>
Divided by gold ounces sold	318,505
<b>All-in sustaining cost per ounce sold</b>	<b>\$ 1,099</b>

<sup>1</sup> 75% of the corporate costs have been attributed to operations

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**NON-GAAP MEASURES (CONTINUED)**

***Adjusted net earnings and adjusted net earnings per share***

"Adjusted net earnings" and adjusted net earnings per share are financial measures with no standard meaning under IFRS which excluded the following from net earnings:

- Impairment charge (impairment of mining interests and goodwill)
- Impairment charge (Non-controlling interest)
- Realized gain – gold price protection program
- Change in unrealized loss (gain) – gold price protection program
- Change in unrealized gain – C\$ share purchase warrants
- Change in unrealized loss – gold put option program
- Loss on marketable securities
- Imputed interest on promissory note
- Loss on foreign currency
- Gain on sale of Finkolo joint venture
- Gain on sale of subsidiaries
- Loss on sale of gold bullion
- Write-down of gold bullion
- Write-down of investment in associate due to reclassification to assets held for sale (NREI)
- Loss on change of ownership
- Share of loss of associate, net of taxes (NREI)
- Stock-based payments
- Finance costs (incurred for the amended Facility)
- Deferred income taxes (recovery)
- Non-operating and exceptional items

Net earnings have been adjusted for items considered exceptional and non-operating in nature. Endeavour uses this measure for its own internal purposes. Consequently, the presentation of adjusted net earnings enables investors and analysts to better understand the underlying operating performance of our core mining business through the eyes of management. Management periodically evaluates the components of adjusted net earnings based on an internal assessment of performance measures that are useful for evaluating the operating performance of our business and a review of the non-GAAP measures used by mining industry analysts and other mining companies.

Adjusted net earnings are intended to provide additional information only and do not have any standardized definition under IFRS; they should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The measures are not necessarily indicative of operating profit or cash flow from operations as determined under IFRS. Other companies may calculate these measures differently.

The following table reconciles these non-GAAP measures to the most directly comparable IFRS measure. The reconciliation of net earnings to adjusted net earnings is below.

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**NON-GAAP MEASURES (CONTINUED)**

***Adjusted net earnings and adjusted net earnings per share***

(US dollars in millions except per share and share amounts)	Three months ended December 31, 2013	Year ended December 31, 2013
Net loss attributable to shareholders of Endeavour	\$ (74,719)	\$ (332,456)
Non-cash impairment charge	74,565	506,872
Non-cash impairment charge attributable to non-controlling interests	(8,053)	(38,379)
Realized gain - gold price protection program	-	(29,259)
Change in unrealized loss (gain) - gold price protection program	(12,721)	(15,013)
Change in fair value of C\$ currency share purchase warrants	(502)	(12,834)
Change in unrealized loss - gold put option program	(645)	1,594
Loss on marketable securities	75	6,356
Loss on promissory note	1,819	1,819
Imputed interest on promissory note	(439)	(2,246)
Loss on foreign currency	(1,179)	1,563
Gain on sale of Finkolo joint venture	-	(13,412)
Gain on sale of subsidiaries	-	(2,092)
Loss on gold bullion	-	5,463
Write-down of gold bullion	-	2,088
Write-down of investment in associate due to reclassification to assets held for sale (NREI)	-	858
Loss on change of ownership	-	620
Share of loss of associate, net of taxes (NREI)	-	465
Stock-based payments	392	4,564
Amortized financing costs	918	1,604
Deferred income taxes (recovery)	(21,826)	(135,108)
Non-operating and exceptional items	10,442	19,257
<b>Adjusted net loss after tax</b>	<b>\$ (31,873)</b>	<b>\$ (27,676)</b>
Weighted average number of outstanding shares	412,995,955	412,554,970
<b>Adjusted net loss per share (basic)</b>	<b>\$ (0.08)</b>	<b>\$ (0.07)</b>

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**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The critical judgments that the Corporation's management has made in the process of applying the Corporation's accounting policies, apart from those involving estimations (Note 4) to the consolidated financial statements that have the most significant effect on the amounts recognized in the Corporation's consolidated financial statements are as follows:

(a) *Commencement of commercial production*

Prior to a mine being capable of operating at levels intended by management, costs incurred are capitalized as part of the costs of related mining properties and proceeds from mineral sales are offset against costs capitalized. The Corporation defines the commencement of commercial production as the date that a mine has achieved a consistent level of production. Management considers several factors in determining when a mining interest is capable of operating at levels intended by management. Depletion of capitalized costs for mining properties begins when the mine is capable of operating at levels intended by management. Subsequent to December 31, 2013, commercial production at the Agbaou Mine was declared on January 27, 2014 (accounting for commercial production will commence on February 1, 2014).

(b) *Determination of economic viability*

Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

(c) *Functional currency*

The functional currency for each of the Corporation's subsidiaries, and investments in associates, is the currency of the primary economic environment in which the entity operates. The Corporation has determined the functional currency of each entity is the US dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Corporation reconsiders functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

(d) *Business combinations*

Determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Corporation to make certain judgements, taking into account all facts and circumstances. If an acquired set of assets and liabilities includes goodwill, the set is presumed to be a business.

(e) *Exchangeable shares*

As part of the acquisition of Avion Gold Corporation certain eligible Avion shareholders could elect to receive their consideration in the form of exchangeable shares in lieu of Endeavour common shares. These exchangeable shares participate equally in voting and dividends with the shareholders of Endeavour and the exchangeable shares are considered the economic equivalent of the common shares. The Corporation has presented these exchangeable shares as a part of shareholders' equity within these consolidated financial statements due to (i) the fact that they are economically equivalent to the common shares and (ii) the holders of the exchangeable shares can only dispose of the exchangeable shares by exchanging them for common shares of the Corporation. Changes in

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**CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)**

(e) *Exchangeable shares (continued)*

these assumptions would affect the presentation of the exchangeable shares from shareholders' equity to non-controlling interests; however there would be no impact on earnings per share.

**KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of consolidated financial statements in conformity with IFRS requires the Corporation's management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Corporation's assets and liabilities are as follows:

(a) *Value Added Tax ("VAT")*

Included in trade and other receivables are recoverable VAT balances owing by the fiscal authorities in Burkina Faso, Ghana and Mali. The Corporation is following the relevant process in each country to recoup the VAT balances owing and continues to engage with authorities to accelerate the repayment of the outstanding VAT balances.

(b) *Impairment of mining interests and goodwill*

The Corporation considers both external and internal sources of information in assessing whether there are any indications that mining interests and goodwill are impaired. External sources of information the Corporation considers include changes in the market, economic and legal environment in which the Corporation operates that are not within its control and affect the recoverable amount of mining interests and goodwill. Internal sources of information the Corporation considers include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

In determining the recoverable amounts of the Corporation's mining interests and goodwill, the Corporation's management makes estimates of the discounted future cash flows expected to be derived from the Corporation's mining properties, costs to sell the mining properties and the appropriate discount rate. The projected cash flows are significantly affected by changes in assumptions about gold's selling price, future capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, production cost estimates, discount rates and exchange rates. Reductions in gold price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, and/or adverse current economics can result in a write-down of the carrying amounts of the Corporation's mining interests and/or goodwill.

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**KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)**

(c) *Estimated recoverable ounces*

The carrying amounts of the Corporation's mining interests are depleted based on recoverable ounces. Changes to estimates of recoverable ounces and depletable costs including changes from revisions to the Corporation's mine plans and changes in gold price forecasts can result in a change to future depletion rates.

(d) *Fair values of assets and liabilities acquired in business combinations*

In a business combination, it generally takes time to obtain the information necessary to measure the fair values of assets acquired and liabilities assumed and the resulting goodwill, if any. Changes to the provisional measurements of assets and liabilities acquired including the associated deferred income taxes and resulting goodwill may be retrospectively adjusted when new information is obtained until the final measurements are determined (within one year of acquisition date). The determination of fair value as of the acquisition date requires management to make certain judgments and estimates about future events, including, but not restricted to, estimates of mineral reserves and resources acquired, exploration potential, future operating costs and capital expenditures, future metal prices, long-term foreign exchange rates, and discount rates.

In determining the amount for goodwill, the Corporation's management makes estimates of the discounted future after-tax cash flows expected to be derived from the acquired business based on estimates of future revenues, expected conversions of resources to reserves, future production costs and capital expenditures, based on a life of mine plan. To estimate the fair value of the exploration potential, a market approach is used which evaluates recent comparable gold property transactions. The excess of acquisition cost over the net identifiable assets acquired represents goodwill.

(e) *Mineral reserves*

Mineral reserves and mineral resources are determined in accordance with Canadian Securities Administrator's national Instrument 43-101 Standards of Disclosure for Mineral Projects. Mineral reserve and resource estimates included numerous estimates. Such estimation is a subjective process, and the accuracy of any mineral reserve or resource estimate is dependent on the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as gold prices and market conditions could have a material effect in the future on the Corporation's financial position and results of operation.

(f) *Environmental rehabilitation costs*

The provisions for rehabilitation are based on the expected costs of environmental rehabilitation and inputs used to determine the present value of such provisions and the related accretion expense using the information available at the reporting date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the profit or loss may be impacted.

(g) *Deferred income taxes*

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

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**KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)**

(g) *Deferred income taxes (continued)*

In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Corporation's control, and are feasible and implementable without significant obstacles. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Corporation reassesses unrecognized and recognized income tax assets.

(h) *Share-based payments*

Significant assumptions are made when accounting for share-based payments. Changes to these assumptions may alter the resulting accounting and ultimately the amount charged to profit or loss.

**RISK FACTORS**

Readers of this Management's Discussion and Analysis should give careful consideration to the information included or incorporated by reference in this document and the Corporation's audited consolidated financial statements and related notes for the year ended December 31, 2013. Significant risk factors for the Corporation are metal prices, government regulations, foreign operations, environmental compliance, dependence on management, title to the Corporation's mineral properties and litigation. For details of risk factors, please refer to the 2013 year-end audited consolidated financial statements, Management's Discussion and Analysis and Annual Information Form filed on SEDAR at [www.sedar.com](http://www.sedar.com).

**FINANCIAL INSTRUMENTS AND RELATED RISKS**

The Corporation's activities expose it to a variety of risks that may include currency risk, credit risk, liquidity risk, interest rate risk and other price risks, including equity price risk. The Corporation examines the various financial instrument risks to which it is exposed and assesses any impact and likelihood of those risks.

(i) *Credit risk*

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Corporation by failing to discharge its obligations. Credit risk arises from cash and cash equivalents, marketable securities held with investment dealers, marketable securities made in the form of a loan, and accounts receivables and other assets. Although it is intended that the marketable securities the Corporation makes in the form of loans will normally be secured, there can be no assurance that such security will completely protect the value of the Corporation's investments. As the assets securing the Corporation's loans will occasionally be subordinated to senior indebtedness, the Corporation's security may have second or third priority.

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**FINANCIAL INSTRUMENTS AND RELATED RISKS (CONTINUED)**

(i) *Credit risk (continued)*

The Corporation closely monitors its financial assets and does not have any significant concentration of credit risk other than cash on deposit with global financial institutions. The Corporation invests its cash and cash equivalents in corporations meeting its investment criteria. The Corporation sells its gold to large international financial institutions and internationally recognized refiners. The Corporation's gold revenue is comprised of gold sales to primarily two customers, however the Corporation is not economically dependent on a limited number of customers for the sale of its gold because gold can be sold through numerous commodity market traders worldwide.

The historical level of customer defaults is minimal and, as a result, the credit risk associated with accounts receivable and other assets at December 31, 2013 is considered to be negligible. The Corporation does not rely entirely on ratings issues by credit rating agencies in evaluating counterparties' related credit risk.

All transactions executed by the Corporation in listed securities are settled and paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Corporation's maximum exposure to credit risk before taking into account any collateral held or other credit enhancements is the carrying amount of the financial instruments at the consolidated statement of financial position date as follows:

	December 31, 2013	December 31, 2012
Cash and cash equivalents	\$ 73,324	\$ 105,900
Cash - restricted	4,517	4,517
Marketable securities	1,731	7,766
Trade and other receivables	38,662	12,614
Long-term receivable	4,274	4,694
Promissory note and other assets	10,197	13,084
Derivative Financial Asset	1,888	-
	<u>\$ 134,593</u>	<u>\$ 148,575</u>

(ii) *Liquidity risk*

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation has a planning and budgeting process in place to help determine the funds required to support the Corporation's normal operating requirements.

The following table summarizes the contractual maturities of the Corporation's financial liabilities and operating and capital commitments at December 31, 2013:

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**FINANCIAL INSTRUMENTS AND RELATED RISKS (CONTINUED)**

(ii) *Liquidity risk (continued)*

In the opinion of management, the working capital at December 31, 2013, together with future cash flows from operations, is sufficient to support the Corporation's commitments.

	Within 1 year	2 to 3 years	4 to 5 years	Over 5 years	Total
Trade and other payables	\$ 94,180	\$ -	\$ -	\$ -	\$ 94,180
Long-term debt	-	116,600	183,400	-	300,000
Finance lease obligations	1,198	70	-	-	1,268
Minimum operating lease payments	408	183	120	-	711
Environmental rehabilitation provision	380	1,076	8,762	19,546	29,764
	\$ 96,166	\$ 117,929	\$ 192,282	\$ 19,546	\$ 425,923

(iii) *Currency risk*

Currency risk relates to the risk that the fair values or future cash flows of the Corporation's financial instruments will fluctuate because of changes in foreign exchange rates. Exchange rate fluctuations may affect the costs that the Corporation incurs in its operations. Gold is sold in US dollars and the Corporation's costs are incurred principally in Australian dollars, Canadian dollars, CFA Franc, Euros, Ghana Cedi, Liberian dollars, South African Rand and US dollars.

The appreciation of non-US dollar currencies against the US dollar can increase the cost of gold production and capital expenditures in US dollar terms. The Corporation also has cash and cash equivalents, marketable securities, and trade receivables and other assets that are denominated in non-US dollar currencies which are subject to currency risk.

The Corporation has not hedged its exposure to foreign currency exchange risk.

The table below highlights the net assets held in foreign currencies:

	December 31, 2013	December 31, 2012
Canadian dollar	\$ 3,153	\$ (1,896)
CFA Francs	\$ 15,460	\$ (41,254)
Other currencies	4,433	3,549
	\$ 23,046	\$ (39,602)

The effect on earnings and other comprehensive earnings before tax at December 31, 2013 of a 10% appreciation or depreciation in the foreign currencies against the US dollar on the above mentioned financial and non-financial assets and liabilities of the Corporation is estimated to be \$5.0 million December 31, 2012 - \$3.9 million) assuming that all other variables remained constant. This calculation is based on the Corporation's statement of financial position as at December 31, 2013.

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**FINANCIAL INSTRUMENTS AND RELATED RISKS (CONTINUED)**

(iv) *Interest rate risk*

Interest rate risk is the risk that the fair values or future cash flows of the Corporation's financial instruments will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk on its cash and cash equivalents. The Corporation holds convertible loans, debentures and short term government treasury securities that have the potential to be affected by changes in interest rates. There is minimal fair value sensitivity to changes in interest rates, since convertible loans and debentures are short term in nature and are usually held to maturity. The Corporation monitors its exposure to interest rates and is comfortable with its exposure given the relatively low short-term US dollar rates. The Corporation bears interest rate risk in relation to amounts drawn under the Corporate Facility and the interest bearing loans due to the Malian Government as the interest rate payable is the US dollar LIBOR floating-rate plus a margin. The Corporation has not hedged its exposure to interest rate risk.

(v) *Price risk*

Price risk is the risk that the fair value of or future cash flows of the Corporation's financial instruments will fluctuate because of changes in market prices. Profitability of the Corporation depends on metal prices, primarily gold. Metal prices are affected by numerous factors such as the sale or purchase of gold by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuations in the value of the US dollar and foreign currencies, global and regional supply and demand and the political and economic conditions of major producing countries throughout the world.

The Corporation is exposed to other price risk or equity price risk in trading its marketable securities and unfavorable market conditions could result in dispositions of marketable securities at less than favorable prices. Additionally, the Corporation marks its investments to market at each reporting period. This process could result in significant write-downs of the Corporation's investments over one or more reporting periods, particularly during periods of declining resource equity markets.

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**CONTROLS AND PROCEDURES**

***Disclosure controls and procedures***

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management evaluated the effectiveness of the Corporation's disclosure controls and procedures as required by Canadian Securities Law.

Based on that evaluation, the CEO and CFO have concluded, that as of the end of the periods covered by this Management's Discussion and Analysis, the disclosure controls and procedures were designed to provide reasonable assurance that information required to be disclosed in the Corporation's annual and interim filings (as such terms are defined under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) and other reports filed or submitted under Canadian securities law is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management including the CEO and CFO as appropriate to allow timely decisions regarding required disclosure.

***Internal controls and procedures***

The Corporation's management, with the participation of its CEO and CFO, is responsible for establishing and maintaining adequate internal controls over financial reporting. Under the supervision of the CFO, the Corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. As at the end of the period covered by this Management's Discussion and Analysis, management evaluated the effectiveness of the Corporation's internal control over financial reporting as required by Canadian securities laws.

Based on that evaluation, the CEO and CFO have concluded that, as of the end of the three and twelve month periods covered by this Management's Discussion and Analysis, the internal controls over financial reporting were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

As a result of the Corporation's acquisition of Avion and the merger, the Corporation has adopted new controls and procedures pertaining to the gold producing activities.

Except for the recent acquisition of gold producing activities as noted above, there have been no material changes in the Corporation's internal controls over financial reporting during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Additional information relating to the Corporation is available on the Corporation's web site at [www.endeavourmining.com](http://www.endeavourmining.com) and in the Corporation's Annual Information Form for the year ended December 31, 2013 on SEDAR at [www.sedar.com](http://www.sedar.com).

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

*Certain statements in this MD&A and certain information incorporated herein by reference constitute forward-looking statements. Forward-looking statements include, but are not limited to, statements with respect to the Corporation's plans or future financial or operating performance, the estimation of mineral reserves and resources, the realization of mineral reserve estimates, conclusions of economic assessments of projects, the timing and amount of estimated future production, costs of future production, future capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, requirements for additional capital, sources and timing of additional financing, realization of unused tax benefits and future outcome of legal and tax matters. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", "will continue" or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". The material factors or assumptions used to develop material forward-looking statements are disclosed throughout this document.*

*Forward-looking statements, while based on management's best estimates and assumptions, are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Endeavour to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: risks related to the successful integration of acquisitions; risks related to international operations; risks related to joint venture operations; risks related to general economic conditions and credit availability, actual results of current exploration activities, unanticipated reclamation expenses; changes in project parameters as plans continue to be refined; fluctuations in prices of metals including gold; fluctuations in foreign currency exchange rates, increases in market prices of mining consumables, possible variations in ore reserves, grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes, title disputes, claims and limitations on insurance coverage and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, changes in national and local government regulation of mining operations, tax rules and regulations, and political and economic developments in countries in which the Corporation operates, actual resolutions of legal and tax matters, as well as those factors discussed in the section entitled "Description of the Business – Risk Factors" in Endeavour's annual information form for the year ended December 31, 2013, available on SEDAR at [www.sedar.com](http://www.sedar.com). Although Endeavour has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Corporation's management reviews periodically information reflected in forward-looking statements. The Corporation has and continues to disclose in its Management's Discussion and Analysis and other publicly filed documents, changes to material factors or assumptions underlying the forward-looking statements and to the validity of the statements themselves, in the period the changes occur.*

**CAUTIONARY NOTE REGARDING RESERVES AND RESOURCES**

*Readers should refer to the annual information form of Endeavour for the year ended December 31, 2013 and other continuous disclosure documents filed by Endeavour available at [www.sedar.com](http://www.sedar.com), for further information on mineral reserves and resources, which is subject to the qualifications and notes set forth therein.*

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Endeavour Mining Corporation

We have audited the accompanying consolidated financial statements of Endeavour Mining Corporation, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

## **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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 Endeavour Mining Corporation as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

***(Signed) Deloitte LLP***

Chartered Accountants

March 18, 2014

Vancouver, British Columbia

**ENDEAVOUR MINING CORPORATION**  
**Consolidated Statements of Financial Position**  
**(Expressed in Thousands of United States Dollars)**

	December 31, 2013	December 31, 2012 (Note 5)
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 73,324	105,900
Cash - restricted (Note 6)	4,517	4,517
Gold bullion (Note 7)	-	45,234
Marketable securities	1,731	7,766
Trade and other receivables	38,662	12,614
Income taxes receivable	218	-
Inventories (Note 8)	62,354	73,861
Prepaid expenses and other	24,251	21,226
Current portion of derivative financial asset (Note 17)	1,658	-
Assets held for sale (Note 9)	-	3,587
	206,715	274,705
Mining interests (Note 10)	1,037,249	1,373,689
Long-term receivable (Note 11)	4,274	4,694
Goodwill (Notes 12 and 20)	-	53,318
Investment in associate (Note 13)	-	6,634
Deferred income taxes (Note 23 (c))	15,328	-
Promissory note and other assets (Note 14)	10,197	13,084
Derivative financial asset (Note 17)	230	-
	\$ 1,273,993	\$ 1,726,124
<b>LIABILITIES</b>		
Current		
Trade and other payables (Note 25)	94,180	86,027
Current portion of finance lease obligations (Note 15)	1,148	1,807
Current portion of derivative financial liabilities (Note 17)	8,850	-
Income taxes payable (Note 23)	12,214	12,004
	116,392	99,838
Finance lease obligations (Note 15)	70	1,286
Long-term debt (Note 16)	286,855	200,547
Derivative financial liabilities (Note 17)	12,019	77,975
Provisions (Note 18)	28,315	30,792
Deferred share unit liability (Note 19 (c)(ii))	152	-
Deferred income taxes (Note 23 (c))	58,684	178,291
	502,487	588,729
<b>EQUITY</b>		
Share capital (Note 19 (a))	991,320	984,834
Equity reserve	39,265	38,677
Retained earnings	(293,528)	38,928
<b>Equity attributable to shareholders of the Corporation</b>	<b>737,057</b>	<b>1,062,439</b>
Non-controlling interests (Note 21)	34,449	74,956
<b>Total equity</b>	<b>771,506</b>	<b>1,137,395</b>
	\$ 1,273,993	\$ 1,726,124

SUBSEQUENT EVENTS (NOTES 10, 15, 19 and 25)

COMMITMENTS & CONTINGENCIES (NOTE 29)

**Approved by the Board: March 18, 2014**

"Neil Woodyer" Director    "Wayne McManus" Director

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

**ENDEAVOUR MINING CORPORATION**  
**Consolidated Statements of Comprehensive Loss**  
**Years ended December 31,**  
**(Expressed in Thousands of United States Dollars)**

	2013	2012
<b>Revenues</b>		
Gold revenue	\$ 443,314	\$ 365,318
<b>Cost of sales</b>		
Operating expenses	312,609	177,125
Depreciation and depletion	95,568	74,122
Royalties	24,001	19,221
<b>Earnings from mine operations</b>	<b>11,136</b>	<b>94,850</b>
Corporate costs	21,451	21,736
Impairment of mining interests and goodwill (Note 20)	506,872	-
Acquisition costs	-	5,805
Share-based payments (Note 19 (c))	4,564	411
Exploration	4,825	10,579
Gain on disposal of mining interests	-	(332)
<b>(Loss) earnings from operations</b>	<b>(526,576)</b>	<b>56,651</b>
Other income (expenses)		
Gains (losses) on financial instruments (Note 22)	48,802	(7,753)
Gain on sale of the Finkolo joint venture (Note 9)	13,412	-
Gain on sale of subsidiaries (Note 10)	2,092	-
Loss on the sale of gold bullion (Note 7)	(5,463)	-
Write-down of gold bullion (Note 7)	(2,088)	(946)
Write-down of investment in associate on reclassification to asset held for sale (Note 13)	(858)	(3,564)
Loss on dilution of Fiore Management & Advisory Corp. (Note 14)	(620)	-
Share of loss of associate, net of taxes (Note 13)	(465)	(1,549)
Fiore Management & Advisory Corp. income (loss)	50	(2,787)
Finance costs	(15,817)	(5,276)
	39,045	(21,875)
<b>(Loss) earnings before taxes</b>	<b>(487,531)</b>	<b>34,776</b>
Current income and other taxes (Note 23)	(19,292)	(12,972)
Deferred income taxes recovery (expense) (Note 23)	135,108	(30,360)
<b>Net loss and total comprehensive loss</b>	<b>(371,715)</b>	<b>(8,556)</b>
<b>Attributable to:</b>		
Shareholders of Endeavour Mining Corporation	(332,456)	(15,486)
Non-controlling interests (Note 21)	(39,259)	6,930
<b>Net loss and total comprehensive loss</b>	<b>\$ (371,715)</b>	<b>\$ (8,556)</b>
<b>Net loss per share</b> (Note 19 (d))		
Basic loss per share	\$ (0.81)	\$ (0.06)
Diluted loss per share	\$ (0.81)	\$ (0.06)

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

**ENDEAVOUR MINING CORPORATION**  
**Consolidated Statements of Cash Flows**  
**Years ended December 31,**  
**(Expressed in Thousands of United States Dollars)**

	2013	2012
<b>Operating Activities</b>		
Cash generated from operating activities (Note 24)	\$ 34,876	\$ 93,373
<b>Investing Activities</b>		
Cash acquired on acquisition (Note 5)	-	7,625
Expenditures on mining interests and prepayments (Note 10)	(213,560)	(121,674)
Proceeds from sale of gold bullion (Note 7)	37,683	-
Proceeds from sale of Finkolo joint venture (Note 9)	17,000	-
Proceeds from sale of assets held for sale (Note 9)	5,310	-
Proceeds from distribution of promissory note and other assets (Note 14)	3,317	177
Proceeds from sale of marketable securities	991	596
Proceeds from sale of subsidiaries	703	-
Proceeds from disposal of mining interests	-	566
Purchases of gold bullion	-	(46,180)
Purchases of marketable securities	-	(336)
Working capital loan facility to former debt advisory busines (Note 14)	-	(1,000)
Issuance of Avion exchangeable loan pre-acquisition (Note 5)	-	(20,000)
Cash used in investing activities	(148,556)	(180,226)
<b>Financing Activities</b>		
Received from the issue of common shares	2,720	6,012
Proceeds from corporate loan facility (Note 16 (a))	100,000	100,000
Payment of financing fees (Note 16 (a))	(7,000)	-
Payment of legal, consulting, registration and other fees (Note 16 (a))	(3,165)	-
Payment of advisory fees (Note 16 (a))	(5,250)	-
Purchase of gold put options (Note 17)	(3,481)	-
Repayment of long-term debt (Note 16)	-	(27,935)
Dividends paid (Note 21)	(1,248)	-
Repayment of finance lease obligation	(1,875)	(946)
Cash generated from financing activities	80,701	77,131
Effect of exchange rate changes on cash and cash equivalents	403	343
Decrease in cash and cash equivalents	(32,576)	(9,379)
Cash and cash equivalents, beginning of year	105,900	115,279
Cash and cash equivalents, end of year	\$ 73,324	\$ 105,900
Cash and cash equivalents is comprised of:		
Cash at bank	\$ 73,324	\$ 60,917
Short-term money-market instruments	-	44,983
Cash and cash equivalents	\$ 73,324	\$ 105,900

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

**ENDEAVOUR MINING CORPORATION**
**Consolidated Statements of Changes in Equity  
(Expressed in Thousands of United States Dollars)**

	Share Capital						Total Number of Shares	Total Share Capital	Equity Reserve Shares	Retained Earnings	Total Attributable to Shareholders	Non-Controlling Interests	Total
	Number of Common Shares	Par Value	Additional Paid in Capital	Number of Exchangeable Shares	Par Value	Additional Paid in Capital							
At January 1, 2012	244,609,949	\$ 2,441	\$ 557,164	-	\$ -	\$ -	244,609,949	\$ 559,605	\$ 27,346	\$ 54,414	\$ 641,365	\$ 26,235	667,600
Shares issued pursuant to the acquisition of Avion Gold Corporation (Note 5)	139,971,947	1,400	356,473	22,083,653	221	56,241	162,055,600	414,335	15,008	-	429,343	41,791	471,134
Exchangeable shares exchanged into common shares	2,716,674	27	6,919	(2,716,674)	(27)	(6,919)	-	-	-	-	-	-	-
Shares issued to purchase concessions	328,500	3	791	-	-	-	328,500	794	-	-	794	-	794
Share options exercised	3,658,795	37	9,870	-	-	-	3,658,795	9,907	(3,970)	-	5,937	-	5,937
Warrants exercised	69,900	-	193	-	-	-	69,900	193	(118)	-	75	-	75
Share based payments	-	-	-	-	-	-	-	-	411	-	411	-	411
Net loss and total comprehensive loss	-	-	-	-	-	-	-	-	-	(15,486)	(15,486)	6,930	(8,556)
At December 31, 2012	391,355,765	\$ 3,908	\$ 931,410	19,366,979	\$ 194	\$ 49,322	410,722,744	\$ 984,834	\$ 38,677	\$ 38,928	\$ 1,062,439	\$ 74,956	\$ 1,137,395
At January 1, 2013	391,355,765	\$ 3,908	\$ 931,410	19,366,979	\$ 194	\$ 49,322	410,722,744	\$ 984,834	\$ 38,677	\$ 38,928	\$ 1,062,439	\$ 74,956	1,137,395
Exchangeable shares exchanged into common shares	18,665,481	187	47,536	(18,665,481)	(187)	(47,536)	-	-	-	-	-	-	-
Share options exercised	1,776,159	18	5,017	-	-	-	1,776,159	5,035	(2,494)	-	2,541	-	2,541
Warrants exercised	544,390	5	1,446	-	-	-	544,390	1,451	(1,272)	-	179	-	179
Share based payments	-	-	-	-	-	-	-	-	4,354	-	4,354	-	4,354
Dividends	-	-	-	-	-	-	-	-	-	-	-	(1,248)	(1,248)
Net loss and total comprehensive loss	-	-	-	-	-	-	-	-	-	(332,456)	(332,456)	(39,259)	(371,715)
At December 31, 2013	412,341,795	\$ 4,118	\$ 985,409	701,498	\$ 7	\$ 1,786	413,043,293	\$ 991,320	\$ 39,265	\$ (293,528)	\$ 737,057	\$ 34,449	\$ 771,506

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

**1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS**

Endeavour Mining Corporation (“Endeavour” or the “Corporation”) is a publicly listed gold mining company that operates three mines and has completed construction of its fourth mine in West Africa in addition to having project development and exploration assets. Endeavour is focused on effectively managing its existing assets to maximize cash flow as well as pursuing organic and strategic growth opportunities that benefit from its management and operational expertise.

Endeavour’s corporate office is in Vancouver, Canada and its shares are listed on the Toronto Stock Exchange (“TSX”) and the Australian Securities Exchange (“ASX”). The Corporation is incorporated in the Cayman Islands and its registered office is located at 190 Elgin Avenue, George Town, Grand Cayman, Cayman Islands.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES***(a) Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

These consolidated financial statements were approved by the Board of Directors of the Corporation on March 18, 2014.

*(b) Basis of preparation*

These consolidated financial statements have been prepared on the historical cost basis, except certain financial instruments that are measured at revalued amounts or fair value at the end of each reporting period, as explained in the accounting policies below. The Corporation’s accounting policies have been applied consistently in preparing these consolidated annual financial statements; with the exception of certain comparative figures that have been adjusted to correct the presentation of revenue and royalties to a gross basis. In 2012, the Corporation netted royalties against revenues and is now presenting gross revenues of \$365.3 million and royalties of \$19.2 million in the 2012 comparative statements of comprehensive loss. There is no net impact on the consolidated statement of comprehensive loss or earnings from mine operations and no impact on the consolidated statements of financial position, the consolidated statements of cash flows or basic or diluted earnings per share in either 2013 or 2012.

*(c) Basis of consolidation*

These consolidated financial statements incorporate the financial statements of the Corporation and entities controlled by the Corporation (“Subsidiaries”) and its investment in associates.

Control is achieved when the Corporation has (i) power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement with the investee and (iii) has the ability to use its power to affects it returns. The Corporation reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of three elements of control previously mentioned.

When the Corporation has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Corporation considers all relevant facts and circumstances in assessing whether or not the Corporation’s voting rights in an investee are sufficient to give it power, including (i) the size of the Corporation’s holdings of voting rights relative to the size and dispersion of holdings of the

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(c) Basis of consolidation (continued)*

other vote holders (ii) potential voting rights held by the Corporation, other vote holders or other parties (iii) rights arising from other contractual arrangements; and (iv) any additional facts and circumstances that indicate that the Corporation has, or does not have, the current ability to direct the relevant activities at the time that decision need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Corporation obtains control over the subsidiary and ceases when the Corporation loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Corporation gains control until the date when the Corporation ceases control of the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Corporation and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Corporation's accounting policies.

All Intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Corporation are eliminated in full on consolidation.

Changes in the Corporation's ownership interests in subsidiaries that do not result in the Corporation losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Corporation's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest are adjusted and the fair value of the consideration paid or received is recognized in equity and attributed to owners of the Corporation.

When the Corporation loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Corporation had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting.

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(c) Basis of consolidation (continued)*

Details of the Corporation's material subsidiaries at the end of the reporting period are as follows:

Entities	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			December 31, 2013	December 31, 2012
Adamus Resources Limited	Gold Operations	Ghana	90%	90%
Agbaou Gold Operations S.A.	Gold Operations	Cote d' Ivoire	85%	85%
Avion Gold (Burkina Faso) Sarl	Exploration	Burkina Faso	90%	90%
Burkina Mining Company S.A.	Gold Operations	Burkina Faso	90%	90%
Segala Mining Co SA	Gold Operations	Mali	80%	80%

*(d) Investments in associates*

An associate is an entity over which the Corporation has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

*(e) Foreign currency translation*

The presentation and functional currency of the Corporation is the US dollar. The individual financial statements of each associate and subsidiary are presented in the currency of the primary economic environment in which the entity operates (its functional currency). In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates at the date of the transaction.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Corporation's foreign operations are translated into US dollars using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period.

*(f) Business combinations*

A business combination is defined as an acquisition of assets and liabilities that constitute a business. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return to the Corporation and its shareholders in the form of dividends, lower costs or other economic benefits. A business consists of inputs, including non-current assets, and processes, including operational processes, that when applied to those inputs, have the ability to create outputs that provide a return to the Corporation and its shareholders. A business also includes those assets and liabilities that do not necessarily have all the inputs and processes required to produce

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(f) Business combinations (continued)*

outputs, but can be integrated with the inputs and processes of the Corporation to create outputs. When acquiring a set of activities or assets in the exploration and development stage, which may not have outputs, the Corporation considers other factors to determine whether the set of activities or assets is a business. Those factors include, but are not limited to, whether the set of activities or assets:

- (i) has commenced planned principal activities;
- (ii) has employees, intellectual property and other inputs and processes that could be applied to those inputs;
- (iii) is pursuing a plan to produce outputs; and
- (i) will be able to obtain access to customers that will purchase the outputs.

Not all of the above factors need to be present for a particular integrated set of activities or assets in the exploration and development stage to qualify as a business.

Business combinations are accounted for using the acquisition method whereby identifiable assets acquired and liabilities assumed, including contingent liabilities, are recorded at their acquisition-date fair values. The acquisition date is the date the Corporation obtains control over the acquiree, which is generally the date that consideration is transferred and the Corporation acquires the assets and assumes the liabilities of the acquiree. The Corporation considers all relevant facts and circumstances in determining the acquisition date.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Corporation, the liabilities, including contingent consideration, incurred and payable by the Corporation to former owners of the acquiree and the equity interests issued by the Corporation. The measurement date for equity interests issued by the Corporation is the acquisition date. Acquisition-related costs, other than costs to issue debt or equity securities, of the acquirer, including investment banking fees, legal fees, accounting fees, valuation fees, and other professional or consulting fees are expensed as incurred. The costs to issue equity securities of the Corporation as consideration for the acquisition are reduced from share capital as share issue costs.

Acquisition-related costs, other than costs to issue equity securities, of the acquiree, including investment banking fees, legal fees, accounting fees, valuation fees and other professional or consulting fees are expensed as incurred. The costs to issue equity securities of the Corporation as consideration for the acquisition are reduced from share capital as share issue costs.

It generally requires time to obtain the information necessary to identify and measure the following as of the acquisition date:

- (i) The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;
- (ii) The consideration transferred in exchange for an interest in the acquiree;
- (iii) In a business combination achieved in stages, the equity interest in the acquiree previously held by the acquirer; and
- (iv) The resulting goodwill or gain on a bargain purchase.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(f) Business combinations (continued)*

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation reports in its financial statements provisional amounts for the items for which the accounting is incomplete.

During the measurement period, the Corporation will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Corporation will also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Corporation receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable and shall not exceed one year from the acquisition date.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the Corporation's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction by transaction basis. All other components of non-controlling interests are measured at acquisition date fair values or, when applicable on the basis specified in another IFRS.

The excess of (i) total consideration transferred by the Corporation, measured at fair value, including contingent consideration, and (ii) the non-controlling interests in the acquiree, over the acquisition-date fair value of net assets acquired, is recorded as goodwill.

Under the acquisition method of accounting for business combinations, where the fair value of consideration paid exceeds the fair value of the identifiable net assets acquired, the difference is recorded as goodwill. Goodwill is not amortized; rather it is tested annually for impairment or at any time during the year that an indicator of impairment is identified.

Goodwill acquired in a business combination is allocated to cash generating units ("cash-generating units") or groups of cash-generating units that are expected to benefit from synergies of the business combination. The cash-generating units or group of cash-generating units to which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes, and is no larger than an operating segment.

*(g) Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, cash balances held with banks and brokers and highly liquid short-term investments with terms of less than 90 days.

*(h) Gold Bullion*

Investments in gold bullion are measured at the lower of average cost and net realizable value.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(i) Inventories*

Finished goods, work-in-process, and stockpiled ore are valued at the lower of average production cost and net realizable value. Production costs include the cost of raw materials, direct labour, mine-site overhead expenses and depreciation and depletion of mining interests. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future production costs to convert the inventories into saleable form.

Ore extracted from the mines is stockpiled and subsequently processed into finished goods. Production costs are capitalized and included in work-in-process inventory based on the current mining costs incurred up to the point prior to the refining process, including applicable overhead, depreciation and depletion relating to mining interests, and removed at the average production cost per recoverable ounce of gold. The average production costs of finished goods represent the average costs of work-in-process inventories incurred prior to the refining process, plus applicable refining costs and associated royalties.

Supplies are valued at the lower of average cost and net realizable value.

*(j) Mining interests*

Mineral interests include interests in mining properties and related plant and equipment.

Mining properties are classified into three categories as follows:

- (i) Reserves - Reserves are classified as depletable mining properties when operating levels intended by management have been reached. Prior to this, they are classified as non-depletable mining properties.
- (ii) Resources - Resources represent the property interests that are believed to potentially contain economic mineralized material such as inferred material within pits; measured, indicated, and inferred resources with insufficient drill spacing to qualify as proven and probable reserves; and inferred resources in close proximity to proven and probable reserves.
- (iii) Exploration potential - Exploration potential represents the estimated mineralized material contained within areas adjacent to existing reserves and mineralization located within the immediate mine area; areas outside of immediate mine areas that are not part of measured, indicated, or inferred resources; and greenfields exploration potential that is not associated with any other production, development, or exploration stage property.

Resources and exploration potential are classified as non-depletable mining properties. The value associated with resources and exploration potential is the value beyond proven and probable reserves which includes amounts assigned from costs of property acquisitions. At least annually or when otherwise appropriate and subsequent to a review and evaluation for impairment, carrying amounts of non-depletable mining properties are reclassified to depletable mining properties as a result of the conversion into reserves that have reached operating levels intended by management.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) *Mining interests* (continued)

*Recognition*

Capitalized costs associated with mining properties include the following:

- (i) Costs of direct acquisitions of production, development and exploration stage properties;
- (ii) Costs attributed to mining properties acquired in connection with business combinations;
- (iii) Expenditures related to the development of mining properties;
- (iv) Expenditures related to economically recoverable exploration;
- (v) Borrowing costs incurred directly attributable to qualifying assets;
- (vi) Certain costs incurred during production, net of proceeds from sales prior to reaching operating levels intended by management; and
- (vii) Estimates of reclamation and closure costs.

Capitalization ceases when an asset is capable of operating in the manner intended by management.

*Acquisitions:*

The cost of a property acquired as an individual asset purchase or as part of a business combination represents the property's fair value at the date of acquisition. This cost is capitalized until the viability of the mining property is determined. When it is determined that a property is not economically viable, the amount capitalized is written off which includes expenditures which were capitalized to the carrying amount of the property subsequent to its acquisition.

*Development expenditures:*

Drilling and related costs incurred to define and delineate a mineral deposit that has not been classified as proven and probable reserves at a development stage or production stage mine are capitalized as part of the carrying amount of the related property in the period incurred, when management determines that there is sufficient evidence that the expenditure will result in a future economic benefit to the Corporation.

Drilling and related costs incurred on sites without an existing mine and on areas outside the boundary of a known mineral deposit which contains proven and probable reserves are exploration expenditures and are expensed as incurred to the date of establishing that costs incurred are economically recoverable. Further exploration expenditures, subsequent to the establishment of economic recoverability, are capitalized and included in the carrying amount of the related property.

Management uses the following criteria in its assessments of economic recoverability and probability of future economic benefit:

- **Geology:** there is sufficient geologic and economic certainty of converting a residual mineral deposit into a proven and probable reserve at a development stage or production stage mine, based on the known geology and metallurgy. There is history of conversion of resources to reserves at operating mines to support the likelihood of conversion.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(j) Mining interests (continued)*

- Scoping: there is a scoping study or preliminary feasibility study that demonstrates the additional resources will generate a positive commercial outcome. Known metallurgy provides a basis for concluding there is a significant likelihood of being able to recoup the incremental costs of extraction and production.
- Accessible facilities: the mining property can be processed economically at accessible mining and processing facilities where applicable.
- Life of mine plans: an overall life of mine plan and economic model to support the mine and the economic extraction of resources/reserves exists. A long-term life of mine plan, and supporting geological model identifies the drilling and related development work required to expand or further define the existing ore body.
- Authorizations: operating permits and feasible environmental programs exist or are obtainable.

Therefore prior to capitalizing exploration drilling, development and related costs, management determines that the following conditions have been met:

- It is probable that a future economic benefit will flow to the Corporation;
- The Corporation can obtain the benefit and controls access to it; and
- The transaction or event giving rise to the future economic benefit has already occurred.

*Borrowing costs:*

Borrowing costs are capitalized when they are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Borrowing costs are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale, or if construction is interrupted for an extended period. Where the funds used to finance a qualifying asset form part of general borrowings, the amount capitalized is calculated using a weighted average of the rates applicable to the relevant borrowings during the period. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

*Costs incurred during production:*

Capitalization of costs incurred ceases when an asset is capable of operating in the manner intended by management. Production costs incurred and revenue earned subsequent to this point are recognized in profit or loss.

Mine development costs incurred to maintain current production are included in profit or loss. The distinction between mining expenditures incurred to develop new ore bodies and to develop mine areas in advance of current production is mainly the production timeframe of the mining area. For those areas being developed, which will be mined in future periods, the costs incurred are capitalized and depleted when the related mining area is mined as compared to current production areas where development costs are considered as costs of sales and included in operating expenses given that the short-term nature of these expenditures matches the economic benefit of the ore being mined.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(j) Mining interests (continued)*

In open pit mining operations, it is necessary to incur costs to remove overburden and other mine waste materials in order to access the ore body ("stripping costs"). During the development of a mine, stripping costs are capitalized and included in the carrying amount of the related mining property and depleted over the productive life of the mine using the unit-of-production method. During the production phase of a mine, stripping costs incurred to provide access to sources of reserves that will be produced in future periods that would not have otherwise been accessible are capitalized and included in the carrying amount of the related mining property. Stripping costs incurred and capitalized during the production phase are depleted using the unit-of-production method over the reserves and a portion of resources that directly benefit from the specific stripping activity. Costs incurred for regular waste removal that do not give rise to future economic benefits are considered as costs of sales and included in operating expenses.

Mining properties are recorded at cost less accumulated depletion and impairment losses.

*Depletion:*

The carrying amounts of mining properties are depleted using the unit-of-production method over the estimated recoverable ounces, when operating levels intended by management for the mining properties have been reached. Under this method, depletable costs are multiplied by the number of ounces extracted divided by the estimated total ounces to be extracted in current and future periods based on proven and probable reserves and a portion of resources.

*Plant and equipment*

Management reviews the estimated total recoverable ounces contained in depletable reserves and resources each financial year and when events and circumstances indicate that such a review should be made. Changes to estimated total recoverable ounces contained in depletable reserves and resources are accounted for prospectively.

Plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Plant and equipment are depreciated using the straight-line method or the unit-of production method based on ounces produced, over the estimated useful lives of the related assets using the following rates:

Plant	Life of mine
Computer equipment	3 years
Office equipment	5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, the term of the relevant lease.

Where parts (components) of an item of plant and equipment have different useful lives they are accounted for as separate items of plant and equipment. Each asset or parts estimated useful life is determined considering its physical life limitations. This physical life of each asset cannot exceed the life of the mine at which the asset is utilized. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(j) Mining interests (continued)*

Amounts expended on assets under construction are capitalized until the asset becomes available for its intended use, at which time depreciation commences on the assets over its useful life. Repairs and maintenance of plant and equipment are expensed as incurred. Costs incurred to enhance the service potential of plant and equipment are capitalized and depreciated over the remaining useful life of the improved asset.

*Derecognition*

Upon disposal or abandonment, the carrying amounts of mining properties and plant and equipment and accumulated depreciation and depletion are removed from the accounts and any associated gains or losses are recorded in profit or loss.

*Commencement of commercial production:*

Commercial production is deemed to have commenced when a mining interest is capable of operating at levels intended by management. This is achieved when management determines that the operational commissioning of major mine and plant components is complete, operating results are being achieved consistently for a period of time and that there are indications that these operating results will continue.

The Corporation determines commencement of commercial production based on the following factors:

- All major capital expenditures to bring the mine to the condition necessary for it to be capable for operating in the manner intended by management have been completed;
- The completion of a reasonable period of testing of the mine plant and equipment;
- The mine or mill has reached a pre-determined percentage of design capacity; and
- The ability to sustain ongoing production of ore.

The list is not exhaustive and each specific circumstance is taken into account before making the decision.

*(k) Impairment*

At each reporting date, the Corporation reviews the carrying amounts of its tangible and intangible 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 any impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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.

Goodwill, intangible assets with an indefinite useful life (Note 2(j)), and intangible assets not yet available for use are tested for impairment annually or whenever there is an indication that the asset may be impaired.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(k) Impairment (continued)*

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

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 a cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or a cash-generating unit in prior years. A reversal of an impairment is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The Corporation performs goodwill impairment tests annually or when events and circumstances indicate that the carrying amounts may no longer be recoverable. In performing the impairment tests, the Corporation estimates the recoverable amount of its cash-generating units that include goodwill and compares recoverable amounts to the cash-generating unit's carrying amount. If a cash-generating unit's carrying amount exceeds its recoverable amount, the Corporation reduces the carrying value of the cash-generating unit or group of cash-generating units by first reducing the carrying amount of the goodwill and then reducing the carrying amount of the remaining assets on a pro-rata basis.

Impairment of goodwill cannot be reversed.

*(l) Leases*

Leases in which the Corporation assumes substantially all risks and rewards of ownership are classified as finance leases. Assets held under finance leases are recognized at the lower of the fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

All other leases are classified as operating leases. Operating lease payments are recognized as an operating cost in profit or loss on a straight-line basis over the lease term except where another systematic basis is more representative of the time pattern in which benefits from the leased asset are consumed.

*(m) Income and deferred taxes*

The Corporation uses the liability method of accounting for income and mining taxes. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for unused tax losses and other income tax deductions. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(m) Income and deferred taxes (continued)*

deferred tax assets and liabilities are not recognized if the temporary differences from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply if the related assets are realized or the liabilities are settled. To the extent that it is probable that taxable profit will not be available against which deductible temporary differences can be utilized a deferred tax asset may not be recognized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period in which the change is substantively enacted. Deferred tax assets and liabilities are considered monetary assets. Deferred tax balances denominated in other than US dollars are translated into US dollars using current exchange rates at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

*(n) Financial instruments*

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

***Financial assets***

Financial assets are classified into the following specified categories: at fair value through profit or loss ("FVTPL"), held-to maturity investments, available-for-sale ("AFS") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

***Financial assets at FVTPL***

Financial assets are classified as FVTPL when the financial asset is either held for trading or is designated as FVTPL upon initial recognition and are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 28.

The Corporation classifies its cash and cash equivalents and investments in marketable securities as FVTPL. The purchase and sale of investments are recognized on the trade date, which is the date that the Corporation commits to purchase or sell the asset.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(n) Financial instruments (continued)**Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Corporation has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment.

*Available-for-sale financial assets ("AFS financial assets")*

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include the Corporation's trade and other receivables and promissory note, which are measured at amortized cost using the effective interest method, less any impairment losses and payments received.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

***Derecognition of financial assets***

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Corporation neither transfer nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Corporation retains an option to repurchase part of a transferred asset), the Corporation allocated the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(n) Financial instruments (continued)*

transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

***Financial liabilities and equity instruments****Classification as debt or equity*

Debt and equity instruments issued by the Corporation are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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 Corporation are recognized as proceeds received, net of direct issue costs.

Repurchase of the Corporation's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Corporation's own equity instruments.

*Financial liabilities*

Financial liabilities are classified as either financial liabilities at FVTPL or other liabilities. Financial liabilities are classified as at FVTP when the financial liability is either held for trading or it is designated as FVTPL

A financial liability is classified as held for trading if (i) it has been incurred principally for the purpose of repurchasing it in the near term; or (ii) on initial recognition it is part of a portfolio of identified instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or (ii) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (iii) it forms part of a contract containing one or more embedded derivatives, and International Accounting Standard 39 – Financial Instruments: Recognition and Measurement ("IAS 39") permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the other gains and losses line item. Fair value is determined in the manner described in Note 17.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(n) Financial instruments (continued)**Other financial liabilities*

Other financial liabilities (including borrowing and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised 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 (including all fees and 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 liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

The Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire. The difference between carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

***Impairment of financial assets***

Financial assets other than those at FVTPL are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

For all other financial assets, objective evidence of impairment could include; (i) significant financial difficulty of the issue or counterparty; or (ii) breach of contract, such as a default of delinquency in interest or principal payments; or (iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or (iv) the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the 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.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(n) Financial instruments (continued)*

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, 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 that the carrying amount of the investment at the date is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

***Derivative financial instruments***

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

***Embedded derivatives***

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and a separate instrument with the same terms as the embedded derivative would also meet the definition of a derivative.

*(o) Environmental rehabilitation provisions*

The Corporation's mining and exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing. The Corporation has made, and intends to make in the future, expenditures to comply with such laws and regulations or constructive obligations. The Corporation records a liability for the estimated future rehabilitation costs and decommissioning of its operating mines and development projects at the time the environmental disturbance occurs or a constructive obligation is determined.

Environmental rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value using a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability. The expected future cash flows include the effect of inflation. The unwinding of the discount, referred to as accretion expense, is included in finance costs and results in an increase in the amount of the provision.

When provisions for closure and environmental rehabilitation are initially recognized, the corresponding cost is capitalized as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalized cost of closure and environmental rehabilitation activities is recognized in mining interests and depreciated over the expected useful life of the operation to which it relates.

Environmental rehabilitation provisions are updated annually for changes to expected cash flows and for the effect of changes in the discount rate, and the change in estimate is added or deducted from the related asset and depreciated over the expected useful life of the operation to which it relates.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(o) Environmental rehabilitation provisions (continued)*

Increases or decreases to the provision arise due to changes in legal or regulatory requirements, the extent of environmental remediation required and cost estimates. The net present value of the estimated costs of these changes is recorded in the period which the change is identified and quantifiable.

*(p) Share capital*

Common and exchangeable shares are classified as share capital. Incremental costs directly attributable to the issue of new share or options are shown in equity as a deduction, net of tax from the proceeds. If the Corporation reacquires its own equity the cost is deducted from equity and the associated share are cancelled or held in treasury.

*(q) Earnings per share*

Earnings per share calculations are based on the weighted average number of common and exchangeable shares issued and outstanding during the period. The rights of the common and exchangeable shares are the same and therefore economically equivalent. As such, common and exchangeable shares are treated as one class of shares for the earnings per share calculation. Diluted earnings per share are calculated using the treasury stock method, whereby the proceeds from the potential exercise of dilutive stock options and share purchase warrants with exercise prices that are below the average market price of the underlying shares are assumed to be used in purchasing the Corporation's common shares at their average market price for the period. In addition, the effect of the Corporation's dilutive share purchase warrants includes adjusting the numerator for mark-to-market gains and losses recognized in profit or loss during the period for changes in the fair value of the dilutive share purchase warrants.

*(r) Revenue recognition*

Revenue from the sale of gold is recognized when the Corporation has transferred to the buyer the significant risks and rewards of ownership; the Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the sale can be measured reliably. Revenue is gross of royalties.

*(s) Share-based payment arrangements*

Equity settled share-based payments to employees and other providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 19 (c)(ii).

Equity settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Corporation obtains the goods or the counterparty renders the service.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded basis over the vesting period, based on the Corporation's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(s) Share-based payment arrangements (continued)*

Corporation revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity reserve.

Exchanges of share options or other share-based payment awards in conjunction with a business combination are accounted for as modifications of the share-based payments awards. Where the Corporation is obliged to replace the acquiree awards, either all or a portion of the market-based measure of the Corporation's replacement awards is included in measuring the consideration transferred in the business combination. In determining the portion of the replacement award that is part of the consideration transferred for the acquiree, both the replacement awards and the acquiree awards are measured at the acquisition date. The portion of the replacement awards that is included in measuring the consideration transferred in a business combination equals the market-based measure of the acquiree awards multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The excess of the market-based measure of the replacement awards over the market-based measure of the acquiree awards included in measuring the consideration transferred is recognized as remuneration cost for post transaction service.

*(t) Provisions*

Provisions are recorded when a present legal or constructive obligation arises as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense and included in finance costs in the statement of comprehensive earnings.

*(u) Newly adopted accounting standards*

The following standards became effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation adopted these standards and they did not have a material impact on its consolidated financial statements.

- *IFRS 10, Consolidated Financial Statements:* IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*.
- *IFRS 11, Joint Arrangements:* IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities-Non – Monetary Contributions by Venturers*.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(u) Newly adopted accounting standards (continued)*

- *IFRS 12, Disclosure of Interests in Other Entities:* IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.
- *IFRS 13, Fair Value Measurements:* IFRS 13 defines fair value, sets out in a single IFRS framework for measuring value and requires disclosures about fair value measurements. The IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. Adoption of this standard has resulted in additional disclosures in Note 28 in relation to fair value measurements in the consolidated financial statements.
- *IAS 1, Presentation of Financial Statements:* In June 2011, the IASB issued amendments to IAS 1 that require an entity to group items presented in the statement of comprehensive income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments were effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted.
- *IAS 27, Separate Financial Statements:* IAS 27 has been updated to require an entity presenting separate financial statements to account for those investments at cost or in accordance with *IFRS 9 Financial Instruments*. The new IAS 27 excludes the guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent, which is within the scope of the current IAS 27 Consolidated and Separate Financial Statements, and is replaced by IFRS 10.
- *IAS 28, Investments in Associates and Joint Ventures:* IAS 28 has been updated and it is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. The scope of the current IAS 28 Investments in Associates does not include joint ventures.
- *IFRIC 20, Stripping Costs in the Production Phase of a Mine:* In October 2011, the IASB issued IFRIC 20 which clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) usable ore that can be used to produce inventory and (ii) improved access to further quantities of material that will be mined in future periods.
- *IAS 19, Employee Benefits:* On June 16, 2011 the IASB issued amendments to IAS 19. The amendments will improve the recognition and disclosure requirements for defined benefit plans.
- *Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7):* On December 16, 2011 the IASB published new disclosure requirements jointly with the Financial Accounting Standards Board (“FASB”) that enables users of financial statements to better compare financial statements prepared in accordance with IFRS and US Generally Accepted Accounting Principles.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)***(u) Accounting Standards issued but not yet effective*

The Corporation has not early adopted the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective. The Corporation is currently assessing the impact they will have on the consolidated financial statements.

- *IFRS 9, Financial Instruments:* IFRS 9 introduces the new requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. Specifically, IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value, and all financial liabilities classified as subsequently measured at amortized cost except for financial liabilities measured at fair value through profit and loss. A mandatory effective date will be finalised when all phases of IFRS 9 are complete with sufficient lead time for implementation.
- *IAS 32, Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32):* On December 16, 2011 the IASB published amendments to IAS 32, *Financial Instruments: Presentation* to clarify the application of the offsetting requirements. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.
- *IFRIC 21 Levies:* In May 2013, the IASB issued IFRIC 21 on the accounting for levies imposed by governments. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Corporation is currently evaluating the impact of the standard.

**3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The critical judgments that the Corporation's management has made in the process of applying the Corporation's accounting policies, apart from those involving estimations (Note 4), that have the most significant effect on the amounts recognized in the Corporation's consolidated financial statements are as follows:

*(a) Commencement of commercial production*

Prior to a mine being capable of operating at levels intended by management, costs incurred are capitalized as part of the costs of related mining properties and proceeds from mineral sales are offset against costs capitalized. The Corporation defines the commencement of commercial production as the date that a mine has achieved a consistent level of production. Management considers several factors (Note 2 (j)) in determining when a mining interest is capable of operating at levels intended by management. Depletion of capitalized costs for mining properties begins when the mine is capable of operating at levels intended by management. Subsequent to December 31, 2013, commercial production at the Agbaou Mine was declared on January 27, 2014 (accounting for commercial production will commence on February 1, 2014).

*(b) Determination of economic viability*

Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

**3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES** (continued)*(c) Functional currency*

The functional currency for each of the Corporation's subsidiaries, and investments in associates, is the currency of the primary economic environment in which the entity operates. The Corporation has determined the functional currency of each entity is the US dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Corporation reconsiders functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

*(d) Business combinations*

Determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Corporation to make certain judgements, taking into account all facts and circumstances. If an acquired set of assets and liabilities includes goodwill, the set is presumed to be a business.

*(e) Exchangeable shares*

As part of the acquisition of Avion Gold Corporation (Note 5(a)) certain eligible Avion shareholders could elect to receive their consideration in the form of exchangeable shares in lieu of Endeavour common shares. These exchangeable shares participate equally in voting and dividends with the shareholders of Endeavour and the exchangeable shares are considered the economic equivalent of the common shares. The Corporation has presented these exchangeable shares as a part of shareholders' equity within these consolidated financial statements due to (i) the fact that they are economically equivalent to the common shares and (ii) the holders of the exchangeable shares can only dispose of the exchangeable shares by exchanging them for common shares of the Corporation. Changes in these assumptions would affect the presentation of the exchangeable shares from shareholders' equity to non-controlling interests; however there would be no impact on earnings per share.

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of consolidated financial statements in conformity with IFRS requires the Corporation's management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Corporation's assets and liabilities are as follows:

*(a) Value Added Tax ("VAT")*

Included in trade and other receivables are recoverable VAT balances owing by the fiscal authorities in Burkina Faso, Ghana and Mali. The Corporation is following the relevant process in each country to recoup the VAT balances owing and continues to engage with authorities to accelerate the repayment of the outstanding VAT balances.

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)***(b) Impairment of mining interests and goodwill*

The Corporation considers both external and internal sources of information in assessing whether there are any indications that mining interests and goodwill are impaired. External sources of information the Corporation considers include changes in the market, economic and legal environment in which the Corporation operates that are not within its control and affect the recoverable amount of mining interests and goodwill. Internal sources of information the Corporation considers include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

In determining the recoverable amounts of the Corporation's mining interests and goodwill, the Corporation's management makes estimates of the discounted future cash flows expected to be derived from the Corporation's mining properties, costs to sell the mining properties and the appropriate discount rate. The projected cash flows are significantly affected by changes in assumptions about gold's selling price, future capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, production cost estimates, discount rates and exchange rates. Reductions in gold price forecasts, increases in estimated future costs of production, increases in estimated future non-expansionary capital expenditures, reductions in the amount of recoverable reserves, resources, and exploration potential, and/or adverse current economics can result in a write-down of the carrying amounts of the Corporation's mining interests and/or goodwill.

*(c) Estimated recoverable ounces*

The carrying amounts of the Corporation's mining interests are depleted based on recoverable ounces. Changes to estimates of recoverable ounces and depletable costs including changes from revisions to the Corporation's mine plans and changes in gold price forecasts can result in a change to future depletion rates.

*(d) Fair values of assets and liabilities acquired in business combinations*

In a business combination, it generally takes time to obtain the information necessary to measure the fair values of assets acquired and liabilities assumed and the resulting goodwill, if any. Changes to the provisional measurements of assets and liabilities acquired including the associated deferred income taxes and resulting goodwill may be retrospectively adjusted when new information is obtained until the final measurements are determined (within one year of acquisition date). The determination of fair value as of the acquisition date requires management to make certain judgments and estimates about future events, including, but not restricted to, estimates of mineral reserves and resources acquired, exploration potential, future operating costs and capital expenditures, future metal prices, long-term foreign exchange rates, and discount rates.

In determining the amount for goodwill, the Corporation's management makes estimates of the discounted future after-tax cash flows expected to be derived from the acquired business based on estimates of future revenues, expected conversions of resources to reserves, future production costs and capital expenditures, based on a life of mine plan. To estimate the fair value of the exploration potential, a market approach is used which evaluates recent comparable gold property transactions. The excess of acquisition cost over the net identifiable assets acquired represents goodwill.

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)***(e) Mineral reserves*

Mineral reserves and mineral resources are determined in accordance with Canadian Securities Administrator's national Instrument 43-101 Standards of Disclosure for *Mineral Projects*. Mineral reserve and resource estimates included numerous estimates. Such estimation is a subjective process, and the accuracy of any mineral reserve or resource estimate is dependent on the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as gold prices and market conditions could have a material effect in the future on the Corporation's financial position and results of operation.

*(f) Environmental rehabilitation costs*

The provisions for rehabilitation are based on the expected costs of environmental rehabilitation and inputs used to determine the present value of such provisions and the related accretion expense using the information available at the reporting date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the profit or loss may be impacted.

*(g) Deferred income taxes*

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Corporation's control, and are feasible and implementable without significant obstacles. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Corporation reassesses unrecognized and recognized income tax assets.

*(h) Share-based payments*

Note 19(c) outlines the significant assumptions made when accounting for share-based payments. Changes to these assumptions may alter the resulting accounting and ultimately the amount charged to profit or loss.

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****5. ACQUISITION OF MINING INTERESTS****Acquisition of Avion Gold Corporation (“Avion”)***Avion Acquisition*

Avion was a single mine West African gold producer with its primary focus on expanding the economic potential of the Tabakoto and Segala properties of the Tabakoto Gold Mine, located in Mali, West Africa. The Tabakoto Gold Mine area totals approximately 156 km<sup>2</sup> in the western part of Mali. Avion also owns the Kofi Project located in Mali, and the Houndé Project located in the south-western region of Burkina Faso, West Africa.

On August 7, 2012, Endeavour announced it had entered into a definitive arrangement agreement with Avion, a TSX listed junior gold producer, pursuant to which Endeavour would acquire all of the issued and outstanding common shares of Avion in an all share transaction with each Avion common share exchanged for 0.365 of an Endeavour common share. Certain eligible Avion shareholders could elect to receive their consideration in the form of Exchangeable Shares in lieu of Endeavour common shares. In addition, the Corporation issued 12,713,707 options to effect the acquisition of Avion. The Avion option holders received 0.365 of an Endeavour option for each Avion option and their options vested immediately without any changes to the terms of expiry.

On October 18, 2012, Endeavour completed the Avion acquisition via a court-approved plan of arrangement and issued 162,055,600 shares to the Avion shareholders, which is inclusive of 22,083,653 shares underlying the Exchangeable Shares issued on closing. As at December 31, 2013, 701,498 Exchangeable Shares remained outstanding.

The total consideration paid of \$429.3 million was calculated as follows:

## Purchase price:

Fair value of 139,971,947 common shares issued as consideration	\$	357,873
Fair value of 22,083,653 exchangeable shares as consideration		56,462
Fair value of 12,713,707 replacement options issued as consideration		15,008
	\$	429,343

In finalizing the purchase price allocation during the fourth quarter of 2013, the Corporation adjusted the preliminary purchase price allocation as described below:

Net assets acquired:	Preliminary	Adjustments	Final
Net working capital acquired, (including cash of \$7.6 million)	\$ (6,687)	\$ 508	\$ (6,179)
Non-current receivable	8,284	(3,007)	5,277
Mining interests	648,821	(7,472)	641,349
Fair value of gold contracts	(28,181)	-	(28,181)
Finance lease obligations	(3,193)	-	(3,193)
Credit facility and financing arrangement	(27,950)	-	(27,950)
Long-term debt	(533)	-	(533)
Exchangeable loan due to Endeavour	(20,179)	-	(20,179)
Provisions for reclamation	(12,314)	-	(12,314)
Deferred income and mining taxes	(86,934)	9,971	(76,963)
Non-controlling interest	(41,791)	-	(41,791)
	\$ 429,343	\$ -	\$ 429,343

**5. ACQUISITION AND MERGER OF MINING INTERESTS (continued)****Acquisition of Avion Gold Corporation ("Avion") (continued)***Avion Acquisition (continued)*

As a result of reflecting the final purchase price adjustments retrospectively, the consolidated balance sheet as at December 31, 2012 has been revised in these financial statements.

The Corporation used an income approach (net present value of expected future cash flows) to determine the fair values of mining interests. Estimates of expected future cash flows are based on estimates of projected future revenues, expected conversions of resources to reserves, expected future productions costs and capital expenditures based on a finalize life of mine plan.

The options were valued using the Black-Scholes option pricing model using the following assumptions:

Risk-free interest rate	1.1%
Expected life	3.0 years
Annualized volatility	47.7%
Dividend rate	0.0%
Forfeiture rate	13.7%

On August 7, 2012, Endeavour entered into a loan agreement with Avion, whereby Endeavour provided a \$20.0 million exchangeable loan (the "Loan") to a wholly-owned subsidiary of Avion. The Loan is for an initial term of six months, bears interest at the rate of the London Interbank Offered Rate for United States dollars ("LIBOR") plus 6% and is secured against the common shares in the capital of two wholly-owned subsidiaries of Avion. In addition, Avion has agreed to guarantee the Loan. On October 18, 2012 Avion became a wholly-owned subsidiary of the Corporation, and on October 22, 2012 the common shares of Avion were delisted from the TSX, with the result that the Loan became an intra-group debt obligation. The two Avion subsidiaries, whose shares were charged as security for the Loan, also became wholly-owned by the Corporation.

The Loan provided was a separate transaction and not part of the business combination. This Loan to the Corporation is eliminated on consolidation.

The primary reasons for the business combination include; (i) creates a growth focused West African gold producer, with an enhanced suite of production, development and exploration assets in Burkina Faso, Côte d'Ivoire, Ghana, Liberia and Mali (ii) combines experienced management teams and board of directors and (iii) results in strong cash generation from three operating gold mines and de-risks the standalone companies.

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****6. CASH - RESTRICTED**

On July 31, 2012 the Corporation and CAL Bank Limited ("CAL") entered into a facility agreement whereby CAL is to provide a bank guarantee (the "Bank Guarantee") to enable the Corporation to fulfill its reclamation obligations with the Environmental Protection Agency of Ghana ("EPA") in respect of disturbed mining lands at Nzema in the Western Region of Ghana. Under the Bank Guarantee the Corporation has provided \$3.3 million in cash collateral to CAL plus \$1.2 million by way of security to the EPA. On August 31, 2013, the Bank Guarantee with CAL was renewed for another year. The Bank Guarantee is renewable annually subject to agreement between the parties.

**7. GOLD BULLION**

	December 31, 2013	December 31, 2012
Ounces held	-	27,000
Weighted average acquisition cost per ounce	\$ -	\$ 1,710
Acquisition cost	\$ -	\$ 46,180
Write-down of gold bullion	\$ -	\$ (946)
End of period market value	\$ -	\$ 45,234
End of period spot price for gold per ounce	\$ -	\$ 1,675

During the year, the Corporation sold its accumulated holdings of 27,000 ounces of gold bullion at a realized price of \$1,396 per ounce for cash of \$37.7 million, resulting in a loss of \$5.5 million for the year ended December 31, 2013. Prior to disposing the 27,000 ounces of gold bullion the Corporation wrote-down its gold bullion to the net realizable value incurring a write-down of \$2.1 million during the year ended December 31, 2013.

**8. INVENTORIES**

	December 31, 2013	December 31, 2012
Doré bars	\$ 2,728	\$ 4,151
Gold in circuit	8,670	10,514
Ore stockpiles	14,296	18,581
Spare parts and supplies	36,660	40,615
	\$ 62,354	\$ 73,861

**9. ASSETS HELD FOR SALE**

	December 31, 2013	December 31, 2012
<b>Assets</b>		
Mineral interests (a)	\$ -	\$ 3,587
	\$ -	\$ 3,587

## ENDEAVOUR MINING CORPORATION

### Notes to the Consolidated Financial Statements

(Expressed in Thousands of United States Dollars, except per share amounts)

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#### 9. ASSETS HELD FOR SALE (continued)

- a) Endeavour holds a 40% interest in the Finkolo joint venture, which was formed in 2003, by Etruscan Resources Inc., (a subsidiary of Endeavour) and Resolute Mining Limited (“Resolute”), which is also the Finkolo joint venture operator. On March 6, 2012 the Corporation entered into a definitive agreement (the “Agreement”) with Resolute for the sale and transfer of the licenses and associated property comprising the Finkolo joint venture in Mali for total consideration of \$20.0 million in cash.

On September 26, 2013 the Corporation completed part of the sale and transfer of the licenses and associated property comprising the Finkolo joint venture in Mali for total consideration of \$17.0 million in cash. This transaction resulted in a realized gain of \$13.4 million and the payment of a \$1.0 million capital gains tax payment. During the fourth quarter of 2013, the Corporation received the \$17.0 million in cash in respect of the sale. Due to the uncertainty of the transfer of a permit the remaining \$3.0 million due from Resolute has not been recorded as a receivable.

The transaction was subject to a number of conditions, including approval from the Government of Mali for the transfer of the Finkolo permits. On May 9, 2013 a mining permit in respect of a key area (the “Mining Permit”) was issued to Endeavour’s Etruscan subsidiary and on July 4, 2013 an application was lodged with the Ministry of Mines for the transfer to a subsidiary of Resolute of the Mining Permit. To accommodate the parties’ desire to close the sale of the main portion of the Finkolo permits (including the Mining Permit) expediently, on August 7, 2013 Endeavour and Resolute agreed to accelerate the closing of the main body of permits ahead of others, for which further procedural formalities will be necessary in Mali. On August 27, 2013 the executed transfer decree was received from the State of Mali in respect to the Mining Permit. This allowed the parties to advance to closing on the main portion of the transaction.

- b) On April 29, 2013 the Corporation sold its 38.5% interest in Namibia Rare Earth Inc., (“NREI”) comprising 30,000,000 shares at C\$0.18 per share for cash proceeds of \$5.3 million.

**ENDEAVOUR MINING CORPORATION**
**Notes to the Consolidated Financial Statements**
**(Expressed in Thousands of United States Dollars, except per share amounts)**
**10. MINING INTERESTS**

	Mining Properties					Total
	Depletable	Non depletable	Assets under construction	Plant and equipment	Corporate assets	
<b>Cost</b>						
Balance as at January 1, 2012	\$ 368,355	\$ 197,994	\$ -	\$ 147,569	\$ 1,706	\$ 715,624
Acquisition of Avion Gold Corporation (Note 5 (a))	236,056	221,828	49,703	133,762	-	641,349
Expenditures/additions	40,459	56,714	7,164	16,308	1,029	121,674
Disposals	(884)	-	-	(439)	-	(1,323)
Assets held for sale (Note 9)	-	(3,587)	-	-	-	(3,587)
Balance as at December 31, 2012	\$ 643,986	\$ 472,949	\$ 56,867	\$ 297,200	\$ 2,735	\$ 1,473,737
Expenditures/additions	42,522	144,390	5,332	21,263	53	213,560
Transfer	60,695	(63,229)	(61,289)	63,823	-	-
Disposals	-	-	-	-	(921)	(921)
Balance as at December 31, 2013	\$ 747,203	\$ 554,110	\$ 910	\$ 382,286	\$ 1,867	\$ 1,686,376
<b>Accumulated depreciation</b>						
Balance as at January 1, 2012	\$ 13,677	\$ -	\$ -	\$ 12,654	\$ 685	\$ 27,016
Depreciation/depletion	55,213	-	-	18,297	612	74,122
Disposals	(869)	-	-	(221)	-	(1,090)
Balance as at December 31, 2012	\$ 68,021	\$ -	\$ -	\$ 30,730	\$ 1,297	\$ 100,048
Depreciation/depletion	55,864	-	-	39,482	222	95,568
Impairment charges (Note 20)	245,315	122,922	-	85,317	-	453,554
Disposals	-	-	-	-	(43)	(43)
Balance as at December 31, 2013	\$ 369,200	\$ 122,922	\$ -	\$ 155,529	\$ 1,476	\$ 649,127
<b>Carrying amounts</b>						
At December 31, 2012	\$ 575,965	\$ 472,949	\$ 56,867	\$ 266,470	\$ 1,438	\$ 1,373,689
At December 31, 2013	\$ 378,003	\$ 431,188	\$ 910	\$ 226,757	\$ 391	\$ 1,037,249

During the year ended December 31, 2013 the Corporation incurred a non-cash impairment charge of \$453.6 million on mining properties and plant and equipment (Note 20).

**ENDEAVOUR MINING CORPORATION**
**Notes to the Consolidated Financial Statements**
**(Expressed in Thousands of United States Dollars, except per share amounts)**
**10. MINING INTERESTS (continued)**

A summary by property of the carrying value is as follows:

	Tabakoto Mine <sup>1</sup>	Nzema Mine	Youga Mine	Development Projects			Exploration Properties	Assets under construction	Finkolo Project	Corporate assets	Total
				Agbaou Project <sup>2</sup>	Houndé Project	Ouaré Project					
<b>Cost</b>											
Balance as at January 1, 2012	\$ -	\$ 533,916	\$ 149,089	\$ 16,959	\$ -	\$ 7,237	\$ 3,130	\$ -	\$ 3,587	\$ 1,706	\$ 715,624
Acquisition of Avion Gold Corporation (Note 5 (a))	480,132	-	-	-	111,514	-	-	49,703	-	-	641,349
Expenditures/additions	7,553	47,683	10,362	40,418	4,154	3,311	-	7,164	-	1,029	121,674
Disposals	-	(884)	(439)	-	-	-	-	-	-	-	(1,323)
Assets held or sale (Note 9)	-	-	-	-	-	-	-	-	(3,587)	-	(3,587)
Balance as at December 31, 2012	487,685	580,715	159,012	57,377	115,668	10,548	3,130	56,867	-	2,735	1,473,737
Expenditures/additions	38,191	23,459	2,924	133,428	9,260	874	39	5,332	-	53	213,560
Transfers	63,823	-	-	-	(2,534)	-	-	(61,289)	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	(921)	(921)
Balance as at December 31, 2013	\$ 589,699	\$ 604,174	\$ 161,936	\$ 190,805	\$ 122,394	\$ 11,422	\$ 3,169	\$ 910	\$ -	\$ 1,867	\$ 1,686,376
<b>Accumulated depreciation</b>											
Balance as at January 1, 2012	\$ -	\$ 2,977	\$ 23,354	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 685	\$ 27,016
Depreciation/depletion	6,009	51,552	15,949	-	-	-	-	-	-	612	74,122
Transfers	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	(869)	(221)	-	-	-	-	-	-	-	(1,090)
Balance as at December 31, 2012	6,009	53,660	39,082	-	-	-	-	-	-	1,297	100,048
Depreciation/depletion	53,836	28,960	12,550	-	-	-	-	-	-	222	95,568
Impairment charges (Note 20)	46,584	335,614	64,313	-	-	3,874	3,169	-	-	-	453,554
Disposals	-	-	-	-	-	-	-	-	-	(43)	(43)
Balance as at December 31, 2013	\$ 106,429	\$ 418,234	\$ 115,945	\$ -	\$ -	\$ 3,874	\$ 3,169	\$ -	\$ -	\$ 1,476	\$ 649,127
<b>Carrying amounts</b>											
At December 31, 2012	\$ 421,591	\$ 527,055	\$ 119,930	\$ 57,377	\$ 115,668	\$ 10,548	\$ 3,130	\$ 56,867	\$ -	\$ 1,438	\$ 1,373,689
At December 31, 2013	\$ 483,270	\$ 185,940	\$ 45,991	\$ 190,805	\$ 122,394	\$ 7,548	\$ -	\$ 910	\$ -	\$ 391	\$ 1,037,249

<sup>1</sup> At December 31, 2013 the Kofi project has been included in the Tabakoto life of mine.

<sup>2</sup> Subsequent to December 31, 2013, commercial production at the Agbaou Mine was declared on January 27, 2014.

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****10. MINING INTERESTS (continued)**

On September 5, 2013, the Corporation completed the sale of several of its non-material, exploration-stage properties located in Mali, for proceeds of \$3.7 million comprised of \$0.7 million cash (net of advisory fees) and 10 million shares of Legend Gold Corp (“Legend”). The Corporation received \$0.7 million of cash and 5 million common shares of Legend resulting in a realized gain of \$2.1 million. An additional 5.0 million common shares of Legend is due to be received upon the completion of the transfer registration for a permit (of which 2.5 million are to be received prior to May 21, 2014), which is currently in process.

**11. LONG-TERM RECEIVABLE**

The long-term receivable pertains to fuel duty that is recoverable from the Government of Mali. During the year ended December 31, 2013 the Corporation received \$2.4 million from the Government of Mali pertaining to fuel duty.

**12. GOODWILL**

	December 31, 2013	December 31, 2012
Balance, beginning of year	\$ 53,318	53,318
Impairment (Note 20)	(53,318)	-
Balance, end of year	\$ -	\$ 53,318

Goodwill is assessed for impairment annually at the beginning of the fourth quarter, or when circumstances indicate there may be impairment, and is allocated to cash-generating units on the basis of management’s internal review.

During the year the Corporation recorded an impairment charge of \$53.3 million on goodwill (Note 20).

**13. INVESTMENT IN ASSOCIATE**

Details of the Corporation’s investment in associate are as follows;

Name of associate	Principal activity	Principal place of business	Country of incorporation	Proportion of ownership interest and voting power held	
				December 31, 2013	December 31, 2012
Namibia Rare Earths Inc.	Mining	Namibia	Canada	0.0%	38.5%

On April 29, 2013 the Corporation sold its 38.5% interest in Namibia Rare Earth Inc., comprising 30,000,000 shares at C\$0.18 per share for cash proceeds of \$5.3 million.

The reporting date of NREI is November 30. For the purposes of applying the equity method of accounting, the financial statements of NREI for the period ended February 28, 2013 have been used and appropriate adjustments have been made for the effects of significant transactions between February 28, 2013 and April 29, 2013.

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****13. INVESTMENT IN ASSOCIATE** (continued)

Share of loss of associate, net of taxes is as follows:

	Namibia Rare Earths Inc.
At December 31, 2011	\$ 11,747
Share of loss of associate, net of taxes	(1,549)
Write-down of investment	(3,564)
At December 31, 2012	6,634
Share of loss of associate, net of taxes	(465)
Write-down of investment in associate on reclassification to asset held for sale	(858)
Reclassification to assets held for sale (Note 9 (b))	(5,311)
At December 31, 2013	\$ -

The following table summarizes the total assets and liabilities of NREI:

	December 31, 2013	December 31, 2012
Total assets	\$ -	\$ 17,819
Total liabilities	-	1,162
Net assets	\$ -	\$ 16,657
Corporation's share of net assets of Namibia Rare Earths Inc.	\$ -	\$ 6,413

**14. PROMISSORY NOTE AND OTHER ASSETS***Promissory note and working capital loan*

The Corporation disposed of its debt advisory business in December 2011, for future consideration of \$20.0 million. The \$20.0 million of consideration consists of the aggregate of a \$10.1 million non-interest bearing promissory note and receipt of future earnings after expenses, including bonuses. During the year ended December 31, 2013 the Corporation received \$3.3 million of distributions.

In addition, on January 1, 2012 the Corporation provided a \$1.0 million working capital loan facility to the purchaser of the debt advisory business to satisfy general working capital needs. The working capital facility is non-interest bearing, unsecured and may be repaid at any time without penalty. However, it must be repaid from debt advisory business profits after Endeavour has received full repayment of the \$10.0 million promissory note.

*Fiore Management & Advisory Corp. (formerly Endeavour Capital)*

On May 1, 2013 the Corporation's ownership percentage was diluted from 100% to 19.9%. On the date of the dilution of ownership, the investment in Fiore Management & Advisory Corp., was treated as a financial asset classified as FVTPL with any gains or losses arising on re-measurement recognized in profit or loss. The reduction in ownership has resulted in the Corporation losing control and triggering recognition of a loss on the entire interest in Fiore Management & Advisory Corp. A loss in the amount of \$0.6 million has been recognized in the statement of comprehensive loss resulting from the portion that has been entirely disposed of and from re-measurement of the interest retained from its carrying value to fair value.

**ENDEAVOUR MINING CORPORATION**

**Notes to the Consolidated Financial Statements**

**(Expressed in Thousands of United States Dollars, except per share amounts)**

**14. PROMISSORY NOTE AND OTHER ASSETS (continued)**

*Fiore Management & Advisory Corp. (formerly Endeavour Capital) (continued)*

Fair value of residual interest 129,999 shares @ C\$0.03 per share	\$	4
Summary of assets and liabilities derecognized		
Cash		(205)
Non-cash working capital		(419)
Net assets derecognized		(624)
Loss on dilution of ownership of subsidiary	\$	(620)

**15. FINANCE LEASE OBLIGATIONS**

Finance leases relate to mining equipment with remaining lease terms of one to two years. The Corporation has the option to purchase the equipment for a nominal amount at the conclusion of the lease agreements. The Corporation's obligations under finance leases are secured by the lessors' title to the leased assets.

The finance leases were composed of the following obligations:

	December 31, 2013	December 31, 2012
Equipment lease obligations	\$ 1,218	\$ 3,093
Less: current portion	(1,148)	(1,807)
Long-term equipment lease obligations	\$ 70	\$ 1,286

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Not later than one year	\$ 1,198	\$ 2,003	\$ 1,148	\$ 1,807
Later than one year and not later than five years	70	1,336	70	1,286
	1,268	3,339	1,218	3,093
Less future finance charges	(50)	(246)	-	-
Present value of minimum lease payments	\$ 1,218	\$ 3,093	\$ 1,218	\$ 3,093

On March 7, 2014 the Corporation's Malian subsidiary, Segala Mining Corporation SA ("Segala"), entered into a 5 year \$18.0 million equipment lease financing facility (the "Equipment Lease") with BNP Paribas's bank subsidiary in Abidjan, Banque Internationale pour le Commerce et l'Industrie de la Côte d'Ivoire ("BICICI"). The Equipment Lease will be used to purchase a portion of the owner-operated mining equipment for the Tabakoto and Segala underground developments. Segala will pay a fixed rate of 9.5% per annum to amortise the principal and pay interest to BICICI. Segala also has a purchase option to buy the equipment outright at the end of the lease life for 0.5%. The Equipment Lease will be treated as a finance lease, and is guaranteed by the Corporation.

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****16. LONG-TERM DEBT**

	December 31, 2013	December 31, 2012
Corporate loan facility (a)	\$ 300,000	\$ 200,000
Deferred financing costs (a)	(13,811)	-
Corporate loan facility	286,189	200,000
Mali Government interest bearing loan (b)	666	547
Total debt	286,855	200,547
Less: current portion	-	-
	<b>\$ 286,855</b>	<b>\$ 200,547</b>

- (a) On November 28, 2011 the Corporation and UniCredit Bank AG entered into a \$200.0 million four year revolving corporate loan facility (the "Corporate Facility") and novation agreement for metal price risk management contracts in respect of 116,161 ounces of gold for the period 2012 to 2016 (the "Hedging Contracts"). On December 5, 2011 Endeavour drew down the first \$100.0 million of the Corporate Facility to fully repay the \$57.0 million Nzema Gold Mine project loan and for general working capital purposes on December 5, 2011. On December 3, 2012 Endeavour drew down the remaining \$100.0 million of the Corporate Facility to fund the gold bullion position, settle the Nzema and Tabakoto 2013 gold hedge programs (Note 17(a)), repay Avion's credit facility and financing arrangement with Banque Atlantique Mali S.A. (\$27.9 million) and maintain a high level of cash liquidity.

On July 24, 2013 the Corporation signed a \$350 million amended senior secured revolving corporate loan facility (the "Facility") with UniCredit Bank AG, BNP Paribas, ING Bank NV, Société Générale and Deutsche Bank AG. Up to \$300 million of the Facility can be used for general corporate purposes including working capital and capital expenditures. As Endeavour had previously drawn \$200 million, the amended facility provided \$100 million of immediately available additional credit. The remaining \$50 million of the Facility will be available after the construction of the Agbaou Gold Mine and can be used to fund expansions and other potential capital projects if certain conditions are met. The Facility is secured by shares of Endeavour's material gold mining subsidiaries and certain material assets of those subsidiaries.

The key terms of the Facility include:

- Maturity date is five years from signing or July 24, 2018, and the available Facility amount declines with six equal semi-annual reductions of \$58.3 million commencing January 1, 2016;
- The Facility requires standard corporate financial covenants, including:
  - Interest Cover shall not be less than 3 to 1, calculated on a rolling 12 month basis
  - Net Debt to EBITDA shall not exceed 3.25 times, calculated on a rolling 12 month basis
  - Minimum tangible net worth of \$600 million; and
- Interest is based on LIBOR plus a margin ranging between 3.75% and 5.5% per annum (sliding scale based on the actual Net Debt to EBITDA ratio).

On July 26, 2013 Endeavour drew down the additional \$100.0 million of the Facility for general working capital purposes.

- (b) The Corporation, through its Malian subsidiaries, carries a liability payable to the Government of Mali in relation to their 20% ownership of Segala Mining Co S.A. The balance of this liability at December 31, 2013 is \$0.7 million or CFA 317.1 million, (December 31, 2012 is \$0.5 million or CFA 283 million),

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****16. LONG-TERM DEBT** (continued)

including accrued interest. This loan bears an interest rate at LIBOR plus 2%, and is calculated semi-annually. This loan will be paid with priority over shareholder dividends from the Malian subsidiaries.

**17. DERIVATIVE FINANCIAL INSTRUMENTS***Derivative financial assets*

The following table summarizes the derivative financial assets:

	December 31, 2013	December 31, 2012
Gold put option program	\$ 1,888	\$ -
Less: current portion	(1,658)	-
<b>Derivative financial assets</b>	<b>\$ 230</b>	<b>\$ -</b>

On July 11, 2013 the Corporation bought put options at a strike price of \$1,150 per ounce covering 54,000 ounces of gold. The gold put option program of 54,000 ounces is comprised of 3,000 ounces per month over the 18 month period from August 2013 to January 2015 and is designed to provide some operating margin protection without limiting the ability to benefit from a rise in the gold price. During the year ended December 31, 2013 15,000 put options expired. The total put option program purchase price was \$3.5 million.

The following table reflects the fair value of the put options as at December 31, 2013:

Period	Put options (ounces)	Price per Ounce	Fair Value
2014	36,000	\$ 1,150.00	\$ 1,658
2015	3,000	1,150.00	230
	39,000	\$ 1,150.00	\$ 1,888

The following table summarizes the loss on the gold put protection program that has been recognized through the consolidated statements of comprehensive loss:

	2013	2012
Change in unrealized loss gold put option protection program	\$ (1,594)	\$ -
<b>Total loss on gold price protection programs (Note 22)</b>	<b>\$ (1,594)</b>	<b>\$ -</b>

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****17. DERIVATIVE FINANCIAL INSTRUMENTS** (continued)*Derivative financial liabilities*

The following table summarizes the derivative financial liabilities:

	December 31, 2013	December 31, 2012
Gold price protection programs (a)	\$ 20,869	\$ 65,141
Share purchase warrants (b)	-	12,834
Derivative financial liabilities	\$ 20,869	77,975
Less: current portion	(8,850)	-
Derivative financial liabilities	\$ 12,019	\$ 77,975

Subsequent to December 31, 2013 the share purchase warrants expired on February 4, 2014.

The following table summarizes the gain (loss) on derivative financial liabilities that have been recognized through the consolidated statements of comprehensive loss:

	2013	2012
Change in fair value of gold price protection programs (a)	\$ 44,272	\$ (10,492)
Change in fair value of share purchase warrants (b)	12,834	9,693
Gain (loss) on derivative financial liabilities (Note 22)	\$ 57,106	\$ (799)

*(a) Gold price protection programs*

The following table summarizes the gain (loss) on the gold price protection programs that have been recognized through the consolidated statements of comprehensive loss:

	2013	2012
Realized loss - gold price protection programs	\$ -	\$ (26,069)
Change in unrealized gain - gold price protection programs for novation of hedge	29,259	-
Change in unrealized gain - gold price protection programs	15,013	15,577
Total gain (loss) on gold price protection programs	\$ 44,272	\$ (10,492)

*(i) Tabakoto Gold Mine, Mali*

Avion sold twelve call options that entitle the buyer to purchase 36,396 ounces of gold over 12 consecutive quarters starting on September 1, 2012 and ending on June 1, 2015. In exchange, Avion received cash consideration of \$25.0 million. Each call option entitles the buyer to purchase 3,033 ounces of gold at a set price. During 2012, the Corporation settled the 2013 call options.

The settlement of the call options are in cash as there is no exchange of physical gold between the Corporation and the buyer.

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)***Derivative financial liabilities (continued)*

The following table reflects the fair value of the call options as at December 31, 2013:

Period	Call options (ounces)	Price per Ounce	Fair Value
2014	12,132	\$ 900.00	\$ 3,555
2015	6,066	900.00	1,707
	18,198	\$ 900.00	\$ 5,262

*(ii) Nzema Gold Mine, Ghana*

Adamus implemented a gold price protection program as part of the initial project financing of the Nzema Gold Mine. The gold price protection program consisted of gold forward contracts initially covering 290,000 ounces at a forward price of \$1,075.00 per ounce and subsequently amended to \$1,061.75 per ounce. The program required no cash or other margin. During 2012, the Corporation settled the 2013 call options.

On July 29, 2013 (in connection with the completion of the Amended Facility, Note 16 (a)), Endeavour re-distributed a portion of the 96,163 ounces of remaining forward contracts (originally linked to the former Nzema project financing), from UniCredit to several of the new lenders. The amended strike price has increased from \$1,061.75 per ounce to a weighted average strike price \$1,331.87 per ounce. On the close out of the former hedge under the Nzema project financing a \$300 per ounce increase in the strike price gave rise to a crystallized loss; this crystallized loss will be spread and paid over the remaining hedge deliveries, resulting in the net proceeds to be received of \$1,031.87 per ounce (\$1,331.87 per ounce less the loss of \$300 per ounce). As a result, the cost of re-striking the hedge is approximately \$2.87 million and will be paid proportionately with the hedge deliveries during 2014 to 2016. Other terms and conditions remain the same.

The following table details the forward contracts as at December 31, 2013:

Period	Forward contracts (ounces)	Price per Ounce	Fair Value
2014	32,000	\$ 1,331.87	\$ 5,295
2015	32,000	1,331.87	5,126
2016	32,163	1,331.87	5,186
	96,163	\$ 1,331.87	\$ 15,607

*(b) Share purchase warrants*

The Corporation's share purchase warrants have exercise prices denominated in currencies other than the Corporation's US Dollar functional currency, which requires that they be classified and accounted for as derivative financial liabilities at fair value, with changes in fair value being included in the consolidated statement of comprehensive earnings. The share purchase warrants are valued using the Black-Scholes option pricing model. Details of share purchase warrants are disclosed in Note 19(b).

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)***Derivative financial liabilities (continued)**(b) Share purchase warrants*

The 32,487,501 Endeavour warrants with an exercise price of C\$2.50 (Note 19(b)) are fair valued using the market price.

The former Etruscan replacement warrants which expired on December 24, 2013, (December 31, 2012 – 544,390), (Note 19 (b)) were valued using the Black-Scholes valuation. The following assumptions were used for the Black-Scholes for the following periods;

	December 31, 2013	December 31, 2012
Risk-free interest rate	N/A	1.3%
Expected life	N/A	0.9 years
Annualized volatility	N/A	54.1%
Dividend rate	N/A	0.0%
Forfeiture rate	N/A	0.0%

The following table summarizes the change in the unrealized gain on the gold price protection programs and the change in the fair value of share purchase warrants that have been recognized through the consolidated statements of cash flows:

	2013	2012
Change in unrealized gain - gold price protection programs	\$ 44,272	\$ 15,577
Change in fair value of share purchase warrants	12,834	9,693
<b>Total unrealized gain on financial derivatives</b>	<b>\$ 57,106</b>	<b>\$ 25,270</b>

**18. PROVISIONS***(a) Environmental rehabilitation provision*

	December 31, 2013	December 31, 2012
Balance beginning of year	\$ 30,792	\$ 9,100
Assumed on acquisition of Avion (Note 5)	-	12,314
Revisions in estimates and obligations incurred	(3,794)	9,059
Accretion	1,317	319
<b>Balance end of year</b>	<b>\$ 28,315</b>	<b>\$ 30,792</b>

The liabilities of each mine will be accreted over the projected life of each mine.

The Corporation's undiscounted reclamation liability for the Tabakoto, Nzema and Youga gold mines as well as the Agbaou project at December 31, 2013 is summarized as follows;

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****18. PROVISIONS** (continued)(a) *Environmental rehabilitation provision*

Gold Mine	Undiscounted reclamation liability	Country Risk Free Rate	Inflation Rate
Nzema	\$ 12,358	6.77%	11.00%
Tabakoto	11,114	6.77%	0.90%
Agbaou	3,639	6.58%	2.60%
Youga	2,653	7.51%	2.80%
	\$ 29,764		

(b) *Long-term compensation award – Gold Strategy*

In early 2009, Endeavour launched its gold investment strategy, which is the basis of the Corporation's gold mining business. The stated vision of this "Gold Strategy" was to ultimately create an intermediate-sized gold company within Endeavour. The Gold Strategy was financed with the proceeds from the liquidation of Endeavour's merchant banking portfolio, the sale of its advisory businesses, and a C\$115 million equity financing. This initial capital, supplemented with subsequent equity issuances, has been used to acquire a group of complementary gold mining assets. By the end of 2013, Endeavour was an established gold producer with three operating mines producing gold at a rate of over 300,000 ounces per year, a fourth gold mine in startup, and an attractive gold project in the permitting stage.

In order to retain, attract, and motivate a group of specialist professional employees with the skills and experience necessary to significantly enhance the profitability and growth of Endeavour's gold business, a long term bonus policy (the "Gold LTI Policy") was established concurrently with the implementation of the Gold Strategy. To ensure that the interests of Endeavour's management team were aligned with shareholders over the long term, the Gold LTI Policy was designed to compensate management when shareholders receive a direct benefit or realization. An award under the Gold LTI Policy (a "Gold LTI Award") is calculated as 10% of the increase in value of Gold Strategy assets and is crystallized and becomes payable upon the sale of a material gold asset, the realization of increased value on completion of a corporate transaction, and certain other events necessary to protect the integrity of the Gold LTI Policy.

During the Gold Strategy launch and initial growth period from 2009 to 2012, a crystallization event occurred when, following the accumulation of a 43% interest in Crew Gold Corporation through a series of share purchases, the Corporation subsequently sold its Crew investment in September 2010. The sale resulted in an \$80.0 million realized gain over the asset cost base of the investment, which resulted in the disbursement of a Gold LTI Award of \$8.0 million in aggregate under the Gold LTI Policy. No other crystallization events have occurred in the implementation of the Gold LTI Policy and therefore no other Gold LTI Awards have been paid or accrued to date.

The calculation of a Gold LTI Award is dependent on the nature of the crystallization event that gives rise to the obligation to make a Gold LTI Award. Intermediate gold producers with attractive growth profiles have been attractive acquisition targets for larger gold producers. In the event an offer is made for the Corporation that is accepted by its shareholders, a Gold LTI Award would be determined as 10% of the acquisition value in excess of the equity cost base of the Corporation on an issued share basis. The equity cost base is the accumulation of the historic market values (or strike prices of exercised stock options and warrants) for all of the shares issued by Endeavour to build the gold company, which as of

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****18. PROVISIONS** (continued)*(b) Long-term compensation award – Gold Strategy*

December 31, 2013 was equivalent to approximately C\$955 million (or C\$2.31 per issued share) as illustrated in the following table:

Equity cost base - Endeavour Gold Strategy	Shares	Cost per Share*
A) Issued shares prior to Gold Strategy launch (Dec 31, 2008)	32,747,901	
Escrow cancellation (March 2010)	(1,074)	
Fund raising for Gold Strategy (CDN \$115M, February 2009)	64,975,000	
	97,721,827	C\$1.77
B) Issued to acquire Etruscan Resources	15,401,909	C\$2.72
C) Issued to acquire Adamus Resources Pty	129,340,958	C\$2.48
D) Issued to acquire Avion Gold Corporation	162,055,600	C\$2.50
E) Issued to complete Axmin property purchase (Avion acquisition)	328,500	C\$2.40
	404,848,794	
Shares issued on exercise of options/warrants	5,873,950	C\$1.73
Total issued shares as at December 31, 2012	410,722,744	C\$2.32
Shares issued on exercise of options/warrants	2,320,549	
Total issued shares as at December 31, 2013	413,043,293	C\$2.31
Total cost base of current issued shares		C\$955 Million

\* Cost per Share is the historic Endeavour share prices at the time of issue (or strike prices of exercised options and warrants)

This cost base methodology was designed to directly align the interests of Endeavour's management team with the market value and potential long-term acquisition value of the Corporation realizable by Endeavour's shareholders.

Gold LTI Awards payable on a crystallization event will be calculated based on the value of the actual consideration exchanged, which may vary significantly from an estimate derived from Endeavour's market capitalization.

**ENDEAVOUR MINING CORPORATION**

**Notes to the Consolidated Financial Statements**

**(Expressed in Thousands of United States Dollars, except per share amounts)**

**19. SHARE CAPITAL**

(a) *Voting shares*

Authorized  
1,000,000,000 voting shares of \$0.01 par value  
1,000,000,000 undesignated shares

(b) *Warrants*

A summary of the changes in warrants is presented below:

	Warrants outstanding		Weighted average exercise price (C\$)
At December 31, 2011	33,237,138	\$	2.46
Exercised	(69,900)		1.08
Expired	(135,347)		2.49
At December 31, 2012	33,031,891	\$	2.46
Exercised	(544,390)		0.34
At December 31, 2013	32,487,501	\$	2.50

The following table summarizes the outstanding and exercisable warrants as at December 31, 2013:

Outstanding and Exercisable	Weighted average exercise price (C\$)	Weighted average remaining contractual life
32,487,501	\$ 2.50	0.10 years

Subsequent to December 31, 2013, the 32,487,501 warrants expired unexercised on February 4, 2014.

The following table summarizes the share-based payments:

	2013	2012
Expense on granting of options	\$ 4,354	\$ 411
Total expense recognized on grant of DSUs	753	-
Change in fair valuation of DSUs	(543)	-
Total share-based payments	\$ 4,564	\$ 411

**ENDEAVOUR MINING CORPORATION**

**Notes to the Consolidated Financial Statements**

**(Expressed in Thousands of United States Dollars, except per share amounts)**

**19. SHARE CAPITAL** (continued)

(c) *Share-based payments*

(i) *Options*

A summary of the changes in share options is presented below:

	Options outstanding	Weighted average exercise price (C\$)
At December 31, 2011	17,525,788	\$ 2.92
Issued on Avion Plan of Arrangement (Note 3)	12,713,707	2.06
Granted	615,000	2.24
Exercised	(3,658,795)	1.68
Forfeited	(50,000)	2.04
Expired	(1,270,882)	7.04
At December 31, 2012	25,874,818	2.46
Granted	4,214,969	2.26
Cancelled	(183,333)	2.26
Exercised	(1,776,159)	1.42
Expired	(3,569,943)	3.29
At December 31, 2013	24,560,352	\$ 2.38

On October 17, 2012, the Corporation issued 12,713,707 options to effect the acquisition of Avion, as described in Note 5. The Avion option holders received 0.365 of an Endeavour option for each Avion option and their options vested immediately without any changes to the terms of expiry. The options were valued at \$15.0 million as part of the purchase allocation price (Note 5).

The following weighted average assumptions were used for the Black-Scholes valuation of share options for the years ended December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Risk-free interest rate	1.2%	1.1%
Expected life	3.0 years	3.0 years
Annualized volatility	51.3%	47.2%
Dividend rate	0.0%	0.0%
Forfeiture rate	11.6%	10.9%

The annualized volatility is based on the Corporation's historical three year daily volatility.

**ENDEAVOUR MINING CORPORATION**

**Notes to the Consolidated Financial Statements**

**(Expressed in Thousands of United States Dollars, except per share amounts)**

**19. SHARE CAPITAL (continued)**

(c) *Share-based payments*

(i) *Options*

The following table summarizes information about the exercisable share options outstanding as at December 31, 2013:

Exercise Prices (C\$)	Outstanding	Exercisable	Weighted average exercise price (C\$)	Weighted average remaining contractual life
\$0.80 - \$1.50	705,170	705,170	\$ 1.18	2.53 years
\$1.51 - \$2.00	10,537,350	10,537,350	1.76	1.76 years
\$2.01 - \$2.50	5,111,383	3,798,049	2.29	3.72 years
\$2.51 - \$3.00	5,899,312	5,899,312	2.67	2.85 years
\$3.51 - \$4.00	80,300	80,300	3.70	2.36 years
\$4.01 - \$44.96	2,226,837	2,226,837	5.05	2.47 years
	24,560,352	23,247,018	\$ 2.38	2.45 years

The Corporation has established a share option plan whereby the Corporation's directors may from time to time grant options to directors, employees or consultants. The maximum term of any option is ten years. The exercise price of an option is not less than the volume weighted average trading price of the shares traded on the exchange for the five trading days immediately preceding the grant date. At December 31, 2013, there were 41,304,329 (December 31, 2012 – 41,072,274) options available for grant under the plan, of which 16,743,977 (December 31, 2012 – 15,197,456) are still available to be granted.

(ii) *Deferred share units*

On January 26, 2013 the Corporation established a deferred share unit plan ("DSU") for the purposes of strengthening the alignment of interests between non-executive directors of the Corporation and shareholders by linking a portion of the annual director compensation to the future value of the Corporation's common shares. Upon establishing the DSU plan for non-executive directors, the Corporation no longer grants options to non-executive directors.

The DSU allows each non-executive director to choose to receive, in the form of DSUs, all or a percentage of the director's fees, which would otherwise be payable in cash. Compensation for serving on committees is to be paid in the form of DSUs. The plan also provides for discretionary grants of additional DSUs by the Board. Each DSU fully vests upon award, but is distributed only when the director has ceased to be a member of the Board. Vested units are settled in cash based on the common share price at that time.

At December 31, 2013, 336,994 DSUs were held by participating directors with a fair value of \$0.2 million (December 31, 2012 – nil). The fair value of the DSUs was recognized as share-based payments totaling \$0.2 million for the year ended December 31, 2013 (December 31, 2012 - \$) with a corresponding amount recorded as a deferred share unit liability in the consolidated statement of financial position.

**ENDEAVOUR MINING CORPORATION**

**Notes to the Consolidated Financial Statements**

**(Expressed in Thousands of United States Dollars, except per share amounts)**

**19. SHARE CAPITAL (continued)**

(c) *Share-based payments* (continued)

(ii) *Deferred share units* (continued)

A summary of the changes in DSUs is presented below:

	<u>Deferred Units outstanding</u>
At December 31, 2012	-
Granted	449,813
Exercised	(112,819)
<u>At December 31, 2013</u>	<u>336,994</u>

(d) *Diluted loss per share*

The following summarizes the stock options and share purchase warrants excluded from the computation of diluted loss per share because the exercise prices exceeded the daily weighted average market values of the common shares for the year ended December 31, 2013, of C\$0.93 (December 31, 2012 – C\$2.24).

	<u>2013</u>	<u>2012</u>
Stock options	24,560,352	11,130,166
Share purchase warrants	32,487,501	32,487,501

Diluted net loss per share was calculated based on the following:

	<u>2013</u>	<u>2012</u>
Basic and diluted weighted average number of shares outstanding	412,554,970	278,861,983

**20. IMPAIRMENT CHARGE**

	<u>2013</u>	<u>2012</u>
Goodwill	\$ 53,318	\$ -
Depletable mining properties	245,315	-
Non-depletable mining properties	122,922	-
Plant & equipment	85,317	-
<u>Total impairment</u>	<u>\$ 506,872</u>	<u>\$ -</u>

During the year ended December 31, 2013, the Corporation recognized a non-cash, \$506.9 million impairment charge from an assessment carried out on its goodwill and mineral interests due to the sharp decline in the gold price (to a low of approximately \$1,180 per ounce in late June and December) seen during the second and fourth quarters of 2013 and the decline in Endeavour's share price along with many precious metal companies' share prices, which acted as indicators of potential impairment of the carrying value of its mineral interests. The non-

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****20. IMPAIRMENT CHARGE** (continued)

cash impairment charge is comprised of \$53.3 million of goodwill, \$368.3 million of mining properties, \$85.3 million of plant and equipment and a deferred income tax recovery of \$142.7 million.

The following table summarizes the impairment charges related to goodwill, mining properties, plant and equipment and the related deferred tax recovery by cash-generating unit:

CGU	Goodwill	Mining properties	Plant & equipment	Deferred tax recovery	Total after-tax impairment
Nzema	\$ 51,254	\$ 280,648	\$ 54,966	\$ (117,465)	\$ 269,403
Youga	2,064	50,697	13,615	(11,254)	55,122
Tabakoto	-	29,849	16,736	(13,975)	32,610
Ouaré	-	3,874	-	-	3,874
Exploration	-	3,169	-	-	3,169
<b>Total impairment</b>	<b>\$ 53,318</b>	<b>\$ 368,237</b>	<b>\$ 85,317</b>	<b>\$ (142,694)</b>	<b>\$ 364,178</b>

*Key assumptions*

The key assumptions used in determining the recoverable amount for each cash-generating unit are long-term commodity prices, discount rates, cash costs of production, capital expenditures, foreign exchange rates and net asset value multiples.

The Corporation's estimates of future metal prices are determined based on current prices, forward prices and forecasts of future prices prepared by industry analysts. For the impairment analysis, estimated 2014 and long-term gold prices used were \$1,300 per ounce.

The Corporation's estimates of future cash costs of production and capital expenditures are based on the life of mine plans for each cash-generating unit.

For the impairment analysis discount rates of between 5.0% and 10.0% were used depending upon risk and stage of development of the project or mine (2012 annual goodwill impairment analysis used the same range of rates).

Impairment charges recognized against mining properties and plant and equipment (excluding goodwill) may be reversed if there are changes in the assumptions or estimates used in determining the recoverable amounts of the cash-generating units which indicate that a previously recognized impairment loss may no longer exist or may have decreased.

*Sensitivity*

The Corporation performed a sensitivity analysis for the Tabakoto, Nzema, and Youga gold mines, in addition to the Agbaou and Houndé development projects at December 31, 2013. Any variation in the key assumptions used to determine fair value would result in a change of the assessed fair value. If the variation in assumptions had a negative impact on fair value, it could indicate a requirement for additional impairment to the CGU.

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****21. NON-CONTROLLING INTERESTS**

The composition of the non-controlling interests is as follows:

	Segala Mining Corporation SA	Adamus Resources Limited	Burkina Mining Company SA	Total
At December 31, 2011	\$ -	\$ 23,290	\$ 2,945	\$ 26,235
Acquisition of Avion (Note 5)	41,791	-	-	41,791
Net earnings (loss)	(587)	(298)	7,815	6,930
At December 31, 2012	41,204	22,992	10,760	74,956
Net earnings (loss)	(9,154)	(26,615)	(3,490)	(39,259)
Dividend distribution	-	-	(1,248)	(1,248)
At December 31, 2013	\$ 32,050	\$ (3,623)	\$ 6,022	\$ 34,449

During the year Endeavour's 90% owned Burkina Faso subsidiary, Burkina Mining Corporation, declared a \$12.4 million dividend based on its 2012 results. The payment of the dividend resulted in a cash payment of \$1.2 million (inclusive of withholding taxes) to the Burkina Faso Government.

**22. GAINS (LOSSES) ON FINANCIAL INSTRUMENTS, NET**

	2013	2012
Gain (loss) on marketable securities	\$ (6,356)	\$ (9,642)
Gain (loss) on promissory note	(1,819)	164
Imputed interest on promissory note and other assets	2,246	2,001
Interest income	123	302
Gain (loss) on derivative financial assets (Note 17)	(1,594)	-
Gain (loss) on derivative financial instruments (Note 17)	57,106	(799)
Gain (loss) gain on foreign currency	(904)	221
	\$ 48,802	\$ (7,753)

**23. INCOME TAXES**

(a) *Income tax recognized in net loss and total comprehensive loss*

Details of the income tax expense are as follows:

	2013	2012
Current income and other tax expenses	\$ 19,292	\$ 12,972
Deferred income taxes (recovery) expense	(135,108)	30,360
Total income tax expense recognized in continuing operations	\$ (115,816)	\$ 43,332

The Corporation is not subject to corporate taxation in the Cayman Islands. However, the taxable earnings of the corporate entities in Australia, Barbados, Burkina Faso, Canada, Côte d'Ivoire, Ghana, Liberia, Mali and Monaco are subject to tax under the tax law of the respective jurisdiction. The

**ENDEAVOUR MINING CORPORATION**

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**(Expressed in Thousands of United States Dollars, except per share amounts)**

**23. INCOME TAXES** (continued)

(a) *Income tax recognized in net loss and total comprehensive loss*

Corporation is using a weighted average of the domestic tax rate applicable, except in Barbados and the Cayman Islands, to reconcile earnings to the income tax expense.

	December 31, 2013	December 31, 2012
(Loss) earnings from continuing operations	(487,531)	34,776
Weighted average domestic tax value	32.53%	17.70%
Income tax (recovery) expense based on weighted average domestic tax rates	(158,617)	6,155
Reconciling items:		
Rate differential	4,646	5,551
Effect of changes in tax rates	-	23,148
Effect of foreign exchange rate changes on deferred taxes	(4,841)	(940)
Non-deductible (non-taxable) expenses	5,072	8,279
Non-deductible goodwill impairment expense	18,300	-
Effect of novation on the hedge liability	13,429	-
Effect of alternative minimum taxes and withholding taxes paid	6,378	1,849
Accrual for tax authority audit	7,458	-
Effect of changes in deferred tax assets not recognized	1,303	504
Other	(8,944)	(1,214)
Income taxes (recovery) expense recognized in net loss and total comprehensive loss	\$ (115,816)	\$ 43,332

The following is a summary of the tax rates in the various taxable jurisdictions:

	2013	2012
Australia	30.0%	30.0%
Barbados	2.5%	2.5%
Burkina Faso	17.5%	17.5%
Canada	25.0%	25.0%
Cayman Islands	0.0%	0.0%
Côte d'Ivoire	25.0%	25.0%
Ghana	35.0%	35.0%
Liberia	25.0%	25.0%
Mali	30.0%	30.0%
Monaco	33.3%	33.3%
Namibia	N/A	37.5%

**ENDEAVOUR MINING CORPORATION**

**Notes to the Consolidated Financial Statements**

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**23. INCOME TAXES (continued)**

*(b) Income taxes payable*

	December 31, 2013	December 31, 2012
Current income taxes receivable		
Income tax receivable	\$ 218	\$ -
Current income taxes payable		
Income taxes payable related to current year taxable profits	\$ 7,850	\$ 12,004
Tax audit assessment accrual	4,364	-
	\$ 12,214	\$ 12,004

*(c) Deferred tax balances*

	December 31, 2013	December 31, 2012
Deferred income tax assets		
Reserves and accruals	\$ 482	\$ 1,005
Reclamation and closure cost obligations	3,331	3,872
Mining interests, and property, plant and equipment	10,567	-
Inventory	178	-
Unrealized loss on derivatives	-	22,203
Unrealized foreign exchange and other timing differences	3,974	-
	18,532	27,080
Deferred income tax liabilities		
Mining interests	(61,888)	(205,371)
Deferred income tax liabilities, net	\$ (43,356)	\$ (178,291)

	December 31, 2013	December 31, 2012
Net deferred income tax asset, as reported in the consolidated statements of financial position	\$ 15,328	\$ -
Net deferred income tax liability, as reported in the consolidated statements of financial position	(58,684)	(178,291)
	\$ (43,356)	\$ (178,291)

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****23. INCOME TAXES (continued)***(c) Deferred tax balances (continued)*

	December 31, 2013	December 31, 2012
Net deferred income tax liability, beginning of year	\$ (178,291)	\$ (70,968)
Assumed on acquisition with Avion (Note 5)	-	(76,963)
Acquisitions and disposals of subsidiaries and operations	(173)	-
Income tax expense charge to earnings during the year	135,108	(30,360)
Net deferred income tax liability, end of year	\$ (43,356)	\$ (178,291)

*(d) Unrecognized deductible temporary differences*

At December 31, 2013 the Corporation had deductible temporary differences for which deferred tax assets have not been recognized in Barbados arising from losses of \$13.8 million (December 31, 2012 - \$14.2) million, because it is not probable that future profits will be available against which the Corporation can utilize the benefit.

*(e) Tax rules and regulations*

The Corporation operates in numerous countries around the world and accordingly it is subject to, and pays annual income taxes under the various income tax regimes in the countries in which it operates. Some of these tax regimes are defined by contractual agreements with the local government, and others are defined by the general corporate income tax laws of the country (or a combination of both). The Corporation has historically filed, and continues to file, all required income tax returns and to pay the taxes reasonably determined to be due. The tax rules and regulations in many countries are highly complex and subject to interpretation. From time to time the Corporation is subject to a review of its income tax filings and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain rules to the Corporation's business conducted within the country involved.

The Corporation's Burkina Faso subsidiary, Burkina Mining Corporation SA, ("BMC") was audited by the Direction Généralé Des Impots ("DGI") for its fiscal taxation years December 31, 2010 and December 31, 2011 and received a final tax assessment amounting to approximately \$7.5 million, a reduction from the initial amount assessed of approximately \$27.9 million. During the fourth quarter of 2013 the Corporation paid installments totaling approximately \$3.1 million towards the assessed amount. The Corporation is working with the DGI to agree a payment schedule for the approximately \$4.4 million that remains outstanding at December 31, 2013. As at December 31, 2013, \$4.4 million of the remaining assessed amount has been accrued in the financial statements and is included in the income tax expense as the tax assessed are income tax related items.

The Corporation's Burkina Faso subsidiary, Avion Gold (Burkina Faso) SARL, ("AGBFS") was audited by the DGI for its fiscal taxation years December 31, 2010 and December 31, 2011 and has received a tax assessment amounting to approximately \$3.4 million. The Corporation is continuing to work with its local tax and legal advisers to finalize the audit and is hopeful that the matter will be resolved in the near future.

## ENDEAVOUR MINING CORPORATION

### Notes to the Consolidated Financial Statements

(Expressed in Thousands of United States Dollars, except per share amounts)

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#### 23. INCOME TAXES (continued)

(e) *Tax rules and regulations*

If the Corporation is unable to resolve any of these matters favorably, there may be a material adverse impact on the Corporation's financial performance, cash flows or results of operations. In the event that management's estimate of the future resolution of these matters changes, the Corporation will recognize the effects of the changes in its consolidated financial statements in the period that such changes occur. As at December 31, 2013, \$1.1 million has been accrued in the financial statements and is included in the exploration costs for the year as it is a tax other than an income tax.

During 2011, the Corporation's Malian subsidiary, Segala Mining Corporation SA, received a final tax assessment from the Malian government of approximately \$4.2 million for the fiscal years ended 2005, 2006 and 2007. The Corporation has paid the above noted amounts owed in respect of such final tax in 2012. The Corporation has received further assessments for amounts totaling approximately \$2.1 million (including penalties) pertaining to the fiscal years ended 2008, 2009 and 2010 which has been accrued in the financial statements and included in trade and other payables as it is a tax other than income tax.

The Corporation's Ghanaian subsidiary, Adamus Resources Limited, was audited by the Ghana Revenue Authority ("GRA") for its fiscal taxation years June 30, 2007 to June 30, 2011. The GRA audit resulted in the Corporation being assessed \$7.2 million, of which \$4.7 million related primarily to withholding taxes for the pre-commercial production period. The \$4.7 million was paid during the fourth quarter of 2012, and is included in operating costs for the year ended December 31, 2012. In addition, the audit also resulted in the reduction of the Corporation's capital allowance for income tax purposes.

In the first quarter of 2012, Ghana passed new tax laws that raised the statutory rate from 25% to 35%. This tax change had a \$23.1 million impact on the first quarter of 2012 deferred tax expense relating to the temporary difference at Nzema arising from prior periods. The expense was offset against the deferred income tax recovery from losses arising from a realized hedge loss.

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****24. SUPPLEMENTAL CASH FLOW INFORMATION**

	2013	2012
<b>Operating activities</b>		
(Loss) earnings before taxes	\$ (487,531)	\$ 34,776
Adjust for:		
Depreciation and depletion	95,568	74,122
Accretion of reclamation and other closure obligations (Note 18)	1,317	319
Amortization of financing costs	1,604	-
Loss on marketable securities (Note 22)	6,356	9,642
Revisions in estimates and obligations incurred for the environmental rehabilitation provision (Note 18)	(3,794)	9,059
Unrealized gain on promissory note and other assets	1,819	(164)
Impairment of mining interests and goodwill (Note 20)	506,872	-
Imputed interest on promissory note	(2,246)	(2,001)
Share-based payments (Note 19 (c))	4,564	411
Unrealized (gain) loss on derivative financial assets (Note 17)	1,594	-
Unrealized (gain) loss on derivative financial liabilities (Note 17)	(57,106)	(25,270)
Loss of sale on gold bullion (Note 7)	5,463	-
Write-down of gold bullion (Note 7)	2,088	946
Share of loss of associate, net of taxes (Note 13)	465	3,564
Write-down of investment in associate on reclassification to asset held for sale (Note 13)	858	1,549
Loss on change of ownership (Note 13)	620	-
Gain on sale of Finkolo joint venture (Note 9)	(13,412)	-
Gain on sale of subsidiaries	(2,092)	-
(Loss) gain on disposal of mining interests	878	(332.0)
Change in long-term receivable	420	3,308
Interest income	(123)	(842)
Interest received	123	136
Interest paid	(9,059)	(2,680)
Income and other taxes paid	(20,016)	(722)
Reclamation deposit	-	(4,517)
Changes in non-cash working capital:		
Trade and other receivables	(26,048)	5,900
Prepaid expenses and other	(3,025)	(6,862)
Inventories	11,507	(3,305)
Trade and other payables	17,212	(3,664)
	<u>\$ 34,876</u>	<u>\$ 93,373</u>

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****25. RELATED PARTY TRANSACTIONS***Compensation of key management personnel*

The remuneration of directors and other members of key management personnel during the year were as follows:

	2013		2012	
Short-term benefits	\$	9,890	\$	8,393
Post-employment benefits		-		25
Share-based payments		3,634		-
	\$	13,524	\$	8,418

Endeavour reviews its compensation practises on an ongoing basis and is dedicated to maintaining an effective compensation program that is market competitive, aligns with business strategy and shareholder interests, and attracts and retains a high-performing executive team. The executive compensation program includes annual bonuses linked to operational performance. In 2013, Endeavour met all of its key operating and financial goals in a very challenging year for the entire gold mining industry. Despite strong operating performance, total shareholder returns during 2013 did not meet expectations with the significant decline in the spot gold price during the first half of the year being a primary factor. With a view to directly aligning executive compensation with share value, it was determined that 50% of the senior executive bonuses awarded for 2013 would be deferred until shareholders' experienced a significant recovery of share value. At the end of 2013, Endeavour's share price closed on the TSX at C\$0.48. The share value recovery threshold was set at C\$0.96 (i.e. a 100% increase over the 2013 closing price).

Subsequent to December 31, 2013, on March 13, 2014 the share value recovery threshold was achieved when Endeavour's 5 day volume weighted average price on the TSX exceeded the C\$0.96 target

**26. SEGMENTED INFORMATION**

IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision-maker ("CODM") to allocate resources to the segments and to assess their performance.

Following the acquisition of Avion, as disclosed in Note 5, the CODM regularly reviews the following operations, the operating segments of the Corporation under IFRS 8:

- (i) Tabakoto – the operation in Mali involved in the production of gold through the Corporation's integrated processes – mining, extraction, production and selling of gold to external clients;
- (ii) Nzema – the operation in Ghana involved in the production of gold through the Corporation's integrated processes – mining, extraction, production and selling of gold to external clients;
- (iii) Youga – the operation in Burkina Faso involved in the production of gold through the Corporation's integrated processes – mining, extraction, production and selling of gold to external clients;
- (iv) Agbaou - operations involved in the construction of a mine;
- (v) Houndé – operations involved in mineral exploration in West Africa and has undergone a feasibility Study;
- (vi) Ouaré – operations involved in mineral exploration in West Africa; and
- (vii) Exploration – operations involved in mineral exploration in West Africa.

The following is an analysis of the Corporation's revenue and results from continuing operations by reportable segment.

**ENDEAVOUR MINING CORPORATION**
**Notes to the Consolidated Financial Statements**
**(Expressed in Thousands of United States Dollars, except per share amounts)**
**26. SEGMENTED INFORMATION (continued)**

	Year Ended December 31, 2013					
	Tabakoto Mine	Nzema Mine	Youga Mine	Exploration	Corporate	Total
<b>Revenue</b>						
Gold revenue	\$ 174,087	\$ 143,206	\$ 126,021	\$ -	\$ -	\$ 443,314
<b>Cost of sales</b>						
Operating expenses	131,607	108,243	72,759	-	-	312,609
Depreciation and depletion	53,836	28,960	12,550	-	222	95,568
Royalties	10,427	7,471	6,103	-	-	24,001
<b>Earnings (loss) from mine operations</b>	<b>(21,783)</b>	<b>(1,468)</b>	<b>34,609</b>	<b>-</b>	<b>(222)</b>	<b>11,136</b>
Corporate costs	-	-	-	-	21,451	21,451
Impairment of mining interests and goodwill	46,585	386,868	66,376	7,043	-	506,872
Share-based payments	-	-	-	-	4,564	4,564
Exploration	-	-	-	4,825	-	4,825
Gain on disposal of mining interests	-	-	-	-	-	-
<b>Loss from operations</b>	<b>(68,368)</b>	<b>(388,336)</b>	<b>(31,767)</b>	<b>(11,868)</b>	<b>(26,237)</b>	<b>(526,576)</b>
Other (expenses) income						
Gains (losses) on financial instruments	1,001	27,258	(195)	(394)	21,132	48,802
Gain on sale of Finkolo joint venture	-	-	-	13,412	-	13,412
Gain on sale of subsidiaries	-	-	-	2,092	-	2,092
Loss on sale of gold bullion	-	-	-	-	(5,463)	(5,463)
Write-down of gold bullion	-	-	-	-	(2,088)	(2,088)
Write-down of investment in associate on reclassification to asset held for sale	-	-	-	-	(858)	(858)
Loss on dilution of Fiore Management & Advisory Corp.	-	-	-	-	(620)	(620)
Share of loss of associate, net of taxes	-	-	-	-	(465)	(465)
Fiore Management & Advisory Corp. income	-	-	-	-	50	50
Finance costs	(905)	(987)	(134)	-	(13,791)	(15,817)
	96	26,271	(329)	15,110	(2,103)	39,045
<b>(Loss) earnings before taxes</b>	<b>(68,272)</b>	<b>(362,065)</b>	<b>(32,096)</b>	<b>3,242</b>	<b>(28,340)</b>	<b>(487,531)</b>
Current income taxes (expense) recovery	(619)	(2,899)	(14,820)	(988)	34	(19,292)
Deferred income taxes recovery	20,928	101,842	11,562	772	4	135,108
<b>Net (loss) earnings and total comprehensive (loss) earnings</b>	<b>\$ (47,963)</b>	<b>\$ (263,122)</b>	<b>\$ (35,354)</b>	<b>\$ 3,026</b>	<b>\$ (28,302)</b>	<b>\$ (371,715)</b>

<sup>†</sup>There is no segmented statements of comprehensive earnings (loss) for development projects as all costs have been capitalized.

**ENDEAVOUR MINING CORPORATION**
**Notes to the Consolidated Financial Statements**
**(Expressed in Thousands of United States Dollars, except per share amounts)**
**26. SEGMENTED INFORMATION (continued)**

	Year Ended December 31, 2012					
	Tabakoto Mine	Nzema Mine	Youga Mine	Exploration	Corporate	Total
<b>Revenue</b>						
Gold revenue	\$ 32,315	\$ 182,002	\$ 151,001	\$ -	\$ -	\$ 365,318
<b>Cost of sales</b>						
Operating expenses	24,808	87,686	64,631	-	-	177,125
Depreciation and depletion	6,009	52,026	15,967	-	120	74,122
Royalties	1,937	9,667	7,617	-	-	19,221
<b>Earnings from mine operations</b>	(439)	32,623	62,786	-	(120)	94,850
Corporate costs	-	-	-	-	21,736	21,736
Acquisition costs	-	-	-	-	5,805	5,805
Share-based payments	-	-	-	-	411	411
Exploration	-	-	-	10,579	-	10,579
Gain on disposal of mining interests	-	-	(332)	-	-	(332)
<b>Earnings (loss) from operations</b>	(439)	32,623	63,118	(10,579)	(28,072)	56,651
Other (expenses) income						
Gains (losses) on financial instruments	1,149	(11,371)	(139)	-	2,608	(7,753)
Write-down of gold bullion	-	-	-	-	(946)	(946)
Fiore Management & Advisory Corp. loss	-	-	-	-	(2,787)	(2,787)
Share of loss of associate, net of taxes	-	-	-	-	(1,549)	(1,549)
Write-down of investment in associate	-	-	-	-	(3,564)	(3,564)
Finance costs	(54)	(672)	(76)	-	(4,474)	(5,276)
	1,095	(12,043)	(215)	-	(10,712)	(21,875)
<b>Earnings (loss) before taxes</b>	656	20,580	62,903	(10,579)	(38,784)	34,776
Current income taxes expense	(3,037)	-	(9,241)	-	(694)	(12,972)
Deferred income taxes (expense) recovery	(1,924)	(29,699)	1,038	-	225	(30,360)
<b>Net earnings (loss) and total comprehensive earnings (loss)</b>	\$ (4,305)	\$ (9,119)	\$ 54,700	\$ (10,579)	\$ (39,253)	\$ (8,556)

<sup>1</sup>There is no segmented statements of comprehensive earnings (loss) for development projects as all costs have been capitalized.

Segment revenue reported represents revenue generated from external customers. There were no inter-segment sales during the years ended December 31, 2013 or December 31, 2012.

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****26. SEGMENTED INFORMATION** (continued)*Geographical information*

The Corporation operates in four principal geographical areas, Burkina Faso, Côte d'Ivoire, Ghana and Mali.

The Corporation's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

## Revenue from external customers

	2013	2012
Mali	\$ 174,087	\$ 32,315
Ghana	143,206	182,002
Burkina Faso	126,021	151,001
	<u>\$ 443,314</u>	<u>\$ 365,318</u>

## Non-current Assets

	December 31, 2013	December 31, 2012
Burkina Faso	\$ 175,933	\$ 246,146
Côte d'Ivoire	190,805	57,377
Ghana	201,268	527,055
Mali	488,454	543,237
Other	10,818	77,604
	<u>\$ 1,067,278</u>	<u>\$ 1,451,419</u>

*Information about major customers*

Revenue from major customers which accounts for 10% or more of the Corporation's revenue are as follows:

	2013	2012
Revenue from one customer in Tabakoto segment	\$ 174,087	\$ 32,315
Revenue from one customer in Nzema segment	143,206	182,002
Revenue from one customer in Youga segment	126,021	151,001
	<u>\$ 443,314</u>	<u>\$ 365,318</u>

The Corporation is not economically dependent on a limited number of customers for the sale of gold because gold can be sold through numerous commodity market traders worldwide.

**ENDEAVOUR MINING CORPORATION****Notes to the Consolidated Financial Statements****(Expressed in Thousands of United States Dollars, except per share amounts)****26. SEGMENTED INFORMATION** (continued)*Total assets and liabilities from continuing operations*

	December 31, 2013		December 31, 2012	
	Total assets	Total liabilities	Total assets <sup>1</sup>	Total liabilities
Tabakoto Mine	\$ 571,563	\$ 111,411	\$ 580,615	\$ 148,138
Nzema Mine	243,411	41,683	581,697	177,484
Youga Mine	78,327	19,101	188,554	34,891
Agbaou Project	195,311	10,356	57,377	6,544
Houndé Project	122,394	-	115,668	-
Ouaré Project	7,548	-	10,548	115
Corporate	54,435	312,953	184,493	220,874
Exploration	1,004	6,983	7,172	683
	<b>\$ 1,273,993</b>	<b>\$ 502,487</b>	<b>\$ 1,726,124</b>	<b>\$ 588,729</b>

<sup>1</sup>Included in Corporate is \$53.3 million of goodwill associated with the merger of Adamus Resources Ltd (\$51.2 million) and the acquisition of Etruscan Resources Inc. (\$2.1 million).

**27. CAPITAL MANAGEMENT**

The Corporation's objectives of capital management are to safeguard the entity's ability to support the Corporation's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans

In the management of capital, the Corporation includes the components of shareholders' equity, short-term borrowings and long-term debt, net of cash and cash equivalents, cash-restricted, gold bullion and marketable securities.

Capital, as defined above, is summarized in the following table:

	December 31, 2013	December 31, 2012
Equity	\$ 771,506	\$ 1,137,395
Current and long-term debt	286,855	200,547
	<b>1,058,361</b>	<b>1,337,942</b>
Less:		
Cash and cash equivalents	(73,324)	(105,900)
Cash - restricted	(4,517)	(4,517)
Gold bullion	-	(45,234)
Marketable securities	(1,731)	(7,766)
	<b>\$ 978,789</b>	<b>\$ 1,174,525</b>

**27. CAPITAL MANAGEMENT** (continued)

The Corporation manages its capital structure and makes adjustments to it in light of changes in its economic environment and the risk characteristics of the Corporation's assets. To effectively manage the entity's capital requirements, the Corporation has in place a planning, budgeting and forecasting process to help determine the funds required to ensure the Corporation has the appropriate liquidity to meet its operating and growth objectives.

**28. FINANCIAL INSTRUMENTS*****Financial assets and liabilities***

The Corporation's financial instruments consist of cash and cash equivalents, marketable securities, trade and other receivables, promissory note and other assets, long-term receivable, derivative financial assets, trade and other payables, derivative financial liabilities and current and long-term debt. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

***Classification of financial assets and liabilities***

Cash and cash equivalents, cash-restricted, marketable securities and investment in Endeavour Capital (Note 13) are classified as FVTPL. Trade and other receivables and the promissory note and other assets are classified as loans and receivables and trade payables and long term debt and credit facilities are classified as other financial liabilities and derivative financial liabilities are classified as FVTPL.

The Corporation assesses its financial instruments and non-financial contracts on a regular basis to determine the existence of any embedded derivatives which would be required to be accounted for separately at fair value and to ensure that any embedded derivatives are accounted for in accordance with the Corporation's policy.

The Corporation has certain financial assets and liabilities that are held at fair value. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques to measure fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Marketable securities which include options and warrants that are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at carrying values based on the current bid price at the reporting dates. When the market for marketable securities is not active (thinly traded) (level 2) those marketable securities are recorded at carrying values based on the last quoted price at the reporting date.

Securities in privately-held companies (level 3) are recorded at cost unless an upward adjustment is considered appropriate and supported by persuasive and objective evidence such as a significant subsequent equity financing by an unrelated, professional investor at a transaction price higher than the Corporation's carrying value. Downward adjustments to carrying value are made when there is evidence of an other than temporary decline in value as indicated by the assessment of the financial condition of the investment based on operational results, forecasts, financing and other developments since acquisition.

Warrants for publicly traded companies which are not listed or traded on a securities exchange (level 2) are valued at the difference between the exercise price and the quoted market price of the underlying shares plus an adjustment for time value using the Black-Scholes option pricing model.

**ENDEAVOUR MINING CORPORATION**

**Notes to the Consolidated Financial Statements**

**(Expressed in Thousands of United States Dollars, except per share amounts)**

**28. FINANCIAL INSTRUMENTS** (continued)

***Financial assets and liabilities*** (continued)

*Classification of financial assets and liabilities* (continued)

Options for public companies which are not listed or traded on a securities exchange (level 2) are valued at the difference between the exercise price and the quoted market price of the underlying shares.

Gold put and call options as well as gold forward contracts (level 2) are valued using either present value techniques or option pricing models that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs.

At December 31, 2013 the levels in the fair value hierarchy into which the Corporation's financial assets and liabilities measured and recognized in the statement of financial position at fair value are categorized are as follows:

	December 31, 2013			
	Level 1 Input	Level 2 Input	Level 3 Input	Aggregate Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 73,324	\$ -	\$ -	\$ 73,324
Cash - restricted	4,517	-	-	4,517
Marketable securities	1,552	179	-	1,731
Derivative financial asset	-	1,888	-	1,888
	<b>\$ 79,393</b>	<b>\$ 2,067</b>	<b>\$ -</b>	<b>\$ 81,460</b>
<b>Liabilities:</b>				
Derivative financial liabilities	-	20,869	-	20,869
	<b>\$ -</b>	<b>\$ 20,869</b>	<b>\$ -</b>	<b>\$ 20,869</b>

At December 31, 2012 the levels in the fair value hierarchy into which the Corporation's financial assets and liabilities are measured and recognized in the statement of financial position at fair value are categorized as follows:

	December 31, 2012			
	Level 1 Input	Level 2 Input	Level 3 Input	Aggregate Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 105,900	\$ -	\$ -	\$ 105,900
Cash - restricted	4,517	-	-	4,517
Marketable securities	1,166	2,000	4,600	7,766
	<b>\$ 111,583</b>	<b>\$ 2,000</b>	<b>\$ 4,600</b>	<b>\$ 118,183</b>
<b>Liabilities:</b>				
Derivative financial liabilities	-	77,975	-	77,975
	<b>\$ -</b>	<b>\$ 77,975</b>	<b>\$ -</b>	<b>\$ 77,975</b>

**28. FINANCIAL INSTRUMENTS** (continued)

***Financial assets and liabilities*** (continued)

There were no transfers between level 1 and 2 in the period.

The following table reconciles the Corporation's level 3 fair value measurements (for example non-listed warrants and private companies) from December 31, 2012 to December 31, 2013:

	Private Equity
Balance at December 31, 2012	\$ 4,600
Realized & unrealized losses included in net income	(4,600)
Balance at December 31, 2013	\$ -

Included in level 3 are certain marketable securities that are fair valued as follows; options and warrants for privately held companies are fair valued using the Black-Scholes pricing model, that uses assumptions supported by persuasive and objective evidence which include the risk-free interest rate, the expected life, annualized volatility, dividend and forfeiture rates.

***Financial instrument risk exposure***

The Corporation's activities expose it to a variety of risks that may include credit risk, liquidity risk, currency risk, interest rate risk and other price risks, including equity price risk. The Corporation examines the various financial instrument risks to which it is exposed and assesses any impact and likelihood of those risks.

(i) *Credit risk*

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Corporation by failing to discharge its obligations. Credit risk arises from cash and cash equivalents, restricted-cash, marketable securities held with investment dealers, marketable securities, trade and other receivables, long-term receivable and promissory note and other assets.

The Corporation closely monitors its financial assets and does not have any significant concentration of credit risk. The Corporation sells its gold to large international organizations with strong credit ratings. The Corporation's gold revenue is comprised of gold sales primarily to two customers.

The historical level of customer defaults is minimal and, as a result, the credit risk associated with gold trade receivables at December 31, 2013 is considered to be negligible. The Corporation does not rely entirely on ratings issued by credit rating agencies in evaluating counterparties' related credit risk.

All transactions executed by the Corporation in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Trade and other receivables include amounts that are past due at the end of the reporting period but against which the Corporation has not recognized an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The

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**(Expressed in Thousands of United States Dollars, except per share amounts)**

**28. FINANCIAL INSTRUMENTS** (continued)

*Financial instrument risk exposure* (continued)

(i) *Credit risk* (continued)

Corporation does not have any collateral or other credit enhancements over these balances nor does it have a legal right to offset any of the amounts owed by the Corporation to the counterparty.

In determining the recoverability of a trade receivable, the Corporation considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

The Corporation's maximum exposure to credit risk is as follows:

	December 31, 2013	December 31, 2012
Cash and cash equivalents	\$ 73,324	\$ 105,900
Cash - restricted	4,517	4,517
Marketable securities	1,731	7,766
Trade and other receivables	38,662	12,614
Long-term receivable	4,274	4,694
Promissory note and other assets	10,197	13,084
Derivative financial asset	1,888	-
	<u>\$ 134,593</u>	<u>\$ 148,575</u>

(ii) *Liquidity risk*

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash, physical gold or another financial asset. The Corporation has a planning and budgeting process in place to help determine the funds required to support the Corporation's normal operating requirements.

The following table summarizes the contractual obligations at December 31, 2013:

	Within 1 year	2 to 3 years	4 to 5 years	Over 5 years	Total
Trade and other payables	\$ 94,180	\$ -	\$ -	\$ -	\$ 94,180
Long-term debt	-	116,600	183,400	-	300,000
Finance lease obligations	1,198	70	-	-	1,268
Minimum operating lease payments	408	183	120	-	711
Environmental rehabilitation provision	380	1,076	8,762	19,546	29,764
	<u>\$ 96,166</u>	<u>\$ 117,929</u>	<u>\$ 192,282</u>	<u>\$ 19,546</u>	<u>\$ 425,923</u>

28. FINANCIAL INSTRUMENTS (continued)

*Financial instrument risk exposure* (continued)

*Market risk*

(i) *Currency risk*

Currency risk relates to the risk that the fair values or future cash flows of the Corporation's financial instruments will fluctuate because of changes in foreign exchange rates. Exchange rate fluctuations may affect the costs that the Corporation incurs in its operations. Gold is sold in US dollars and the Corporation's costs are incurred principally in Australian dollars, CFA Franc, Canadian dollars, Euros, Ghana Cedi, Liberian dollars, South African Rand and US dollars.

The appreciation of non-US dollar currencies against the US dollar can increase the cost of gold production and capital expenditures in US dollar terms. The Corporation also holds cash and cash equivalents, marketable securities, and other receivables that are denominated in non-US dollar currencies which are subject to currency risk.

The Corporation has not hedged its exposure to foreign currency exchange risk.

The table below highlights the net assets held in foreign currencies:

	December 31, 2013	December 31, 2012
Canadian dollar	\$ 3,153	\$ (1,896)
CFA Francs	\$ 15,460	\$ (41,254)
Other currencies	4,433	3,549
	<u>\$ 23,046</u>	<u>\$ (39,602)</u>

The effect on earnings and other comprehensive earnings before tax as at December 31, 2013 of a 10% appreciation or depreciation in the foreign currencies against the US dollar on the above mentioned financial and non-financial assets and liabilities of the Corporation is estimated to be \$2.3 million (December 31, 2012 – \$3.9 million) assuming that all other variables remained constant. This calculation is based on the Corporation's statement of financial position as at December 31, 2013.

(ii) *Interest rate risk*

Interest rate risk is the risk that the fair values or future cash flows of the Corporation's financial instruments will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk on its long-term debt, cash and cash equivalents and restricted-cash. There is minimal fair value sensitivity to changes in interest rates, since marketable securities and government treasury securities held as loans are short term in nature and are usually held to maturity. The Corporation monitors its exposure to interest rates and is comfortable with its exposure given the relatively low short-term US interest rates.

**28. FINANCIAL INSTRUMENTS** (continued)***Financial instrument risk exposure*** (continued)***Market risk*** (continued)*(iii) Price risk*

Price risk is the risk that the fair value of or future cash flows of the Corporation's financial instruments will fluctuate because of changes in market prices. Profitability of the Corporation depends on metal prices, primarily gold. Metal prices are affected by numerous factors such as the sale or purchase of gold by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuations in the value of the US dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major producing countries through the world.

The Corporation is also exposed to other price risk or equity price risk in trading its marketable securities and unfavorable market conditions could result in dispositions of marketable securities at less than favorable prices. Additionally, the Corporation fair values its investments at each reporting period. This process could result in significant write downs of the Corporation's investments over one or more reporting periods, particularly during periods of declining resource equity markets.

**29. COMMITMENTS AND CONTINGENCIES*****Commitments******Contracts and Leases***

- (i) The Corporation has commitments in place at all four of its mines for drill and blasting services, load and haul services and supply of explosives and supply of hydrocarbon services. The terms extend through the period October 1, 2013 to February 2016 and require the contractors to drill and blast a minimum agreed amount of bank cubic meters ("BCM") per annum.
- (ii) The Corporation has four contracts in place at Nzema to purchase on average 14,000 tonnes of higher grade ore per month from third parties that extend through the period January 1, 2014 to November 30, 2014.
- (iii) The Corporation is subject to operating and finance lease commitments in connection with the purchase of mining equipment and light duty vehicles and workshop from several suppliers totaling \$1.8 million. The terms extend through the period January 1, 2014 to February 2015. The Corporation is also subject to operating lease commitments in connection with rented office premises.
- (iv) The Corporation is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Corporation cannot reasonably predict the likelihood or outcome of these actions. The Corporation does not believe that adverse decisions in any other pending or threatened proceedings related to any matter, or any amount which may be required to be paid by reason thereof, will have a material effect on the financial condition or future results of operations.
- (v) The Corporation's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Corporation believes its operations are materially in compliance with all

**29. COMMITMENTS AND CONTINGENCIES**

***Commitments*** (continued)

*Contracts and Leases* (continued)

applicable laws and regulations. The Corporation has made, and expects to make in the future, expenditures to comply with such laws and regulations.

*Contingencies*

- (i) On May 17, 2010 the Corporation received a notice of arbitration from Burkina Faso Mines Services S.A. ("BFMS) relating to the termination of a drill blast contract at the Youga Gold Mine in December 2009. BFMS claimed payments and damages totaling \$9.3 million plus accrued interest, exchange rate adjustments and cost.

On January 17, 2013 the arbitrator rendered a decision which dismissed BFMS's claim against BMC but also rejected BMC's counterclaim against BFMS. Total historical payables of BMC together with interest due amounted to \$3.9 million and were paid during the first quarter of 2013. On June 1, 2013 the arbitrator rendered a decision on the recoverable costs of the arbitration and legal proceedings which awarded the Corporation C\$0.3 million. No costs were awarded to BFMS.