Years Ended December 31, 2012 and 2011

(Expressed in Thousands of United States Dollars)

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, 2012 and 2011 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 26, 2013. Additional information relating to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com.

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 financial results for the three months and year ended December 31, 2012 only include 75 days of Avion's operating results for the same operating period.

On December 5, 2011 the merger between the Corporation and Adamus Resources Limited ("Adamus"), which owned the Nzema Gold Mine in Ghana ("Nzema" or the "Nzema Gold Mine") became effective. As a result, Endeavour's comparative financial results for the three months and year ended December 31, 2011 only include 26 days of Adamus' operating results for the same operating period.

OPERATIONAL HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2012

- Gold production increased to 220,462 ounces for the full year 2012 compared to 92,309 ounces in 2011. The significant increase in production is due to the full year inclusion of Nzema and inclusion of Tabakoto from October 18, 2012. Full year gold production would have been 310,778 if Tabakoto had been included from January 1, 2012. Youga and Nzema production for 2012 exceeded guidance. Production for the fourth quarter (including Tabakoto from October 18, 2012) was 68,299 ounces compared to 26,631 ounces in the same period in 2011.

- Gold sales were 218,887 ounces for the full year 2012 compared to 97,377 ounces in 2011. The significant increase in sales is due to the full year inclusion of Nzema and inclusion of Tabakoto from October 18, 2012. Full year gold sales would have been 309,490 ounces if Tabakoto had been included from January 1, 2012. Sales for the fourth quarter (including Tabakoto from October 18, 2012) were 68,721 ounces compared to 30,440 ounces in the same period in 2011.

- Total cash cost[1] (excluding royalties) per gold ounce produced for the full year 2012 was $767 compared to $664 in 2011. 2012 includes Nzema for the full year and Tabakoto from October 18, 2012. The total cash cost (excluding royalties) per gold ounce produced for the fourth quarter of 2012 was $999 compared to $622 in 2011. The Nzema and Youga combined cash cost (excluding royalties and purchased ore) was $701 compared to the guidance range of $670 to $690 in 2012. The Nzema cash cost was high in the fourth quarter as the transition to full production at the Adamus pits (formerly known as Anwia and Teleku-Bokazo), which contain the higher grade ore reserves, has been slower than expected. Tabakoto cash costs were only included in consolidated cash costs from October 18, 2012. Tabakoto's cash cost per ounce was high in this abbreviated period due to slightly lower grade ore through the mill, effects of transition to Endeavour's management style and culture coupled with changes to accounting judgments and estimates that resulted in including certain expenditures (previously included in capital) as operating costs, which is in-line with standard industry practice. For further discussion on cash costs and the measures being taken in 2013 to improve performance see the Operations Review section for Tabakoto.

[1]Total cash cost is a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 41.

OPERATIONAL HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)

- Cash margin[3], which is revenues less cash costs and royalties, was $819 per ounce of gold sold from Nzema, Youga and Tabakoto, or $179.2 million for the full year 2012.

- On October 18, 2012 Endeavour completed an all stock acquisition of Avion to add the 80% owned Tabakoto Gold Mine, which produced approximately 110,301 ounces of gold in 2012, and two advanced projects, Houndé and Kofi, to the Corporation's assets. Integration of the operations is ongoing with an emphasis on completing the expansion of the Tabakoto mill, improving mine efficiency and lowering costs. Expansion of the mill is nearing completion, with ramp-up planned during the second quarter of 2013, raising the annual production rate to approximately 150,000 ounces per year.

- Additional near-term production growth of over 100,000 ounces per year is expected from the 85% owned Agbaou Gold Mine ("Agbaou"), which is under construction in Côte d'Ivoire. Construction is progressing well and is on schedule for production in the first quarter of 2014. All major mining contracts have been awarded and are in line with the estimated costs in the feasibility study and approximately 65% of the total construction costs of $159 million have been committed.

- The Feasibility Study for the Houndé Gold Project in Burkina Faso is on schedule for completion by the end of 2013. This follows on the positive Preliminary Economic Assessment ("PEA") announced in January 2013 which showed potential for 160,000 ounces per year of production over a 10-year mine life beginning in 2016.

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, 2012 and 2011 that are included in Endeavour's financial results:

	Three Months Ended December 31,		Years Ended December 31,	
Operating Data:	2012[3]	2011[4]	2012[3]	2011[4]
Gold ounces produced (including purchased ore):	68,299	26,631	220,462	92,309
Gold ounces sold:	68,721	30,440	218,887	97,377
Realized price				
Gold ($/ounce)[2]	1,606	1,549	1,581	1,512
Total cash cost per gold ounce produced (excluding royalties) ($/ounce)[1]	999	622	767	664
Total cash cost per gold ounce sold (excluding royalties) ($/ounce)[1]	981	609	763	630
Financial Data (US dollars in thousands)				
Revenues (Net of royalties)	110,370	47,151	346,097	147,227
Royalties	6,792	2,135	19,221	11,176
Earnings from mine operations	15,564	24,085	95,302	59,404

[1] Total cash cost is a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 41.
[2] The realized price is the average price received for all ounces sold including sales at the gold hedge price.
[3] Only the results for the Tabakoto Gold Mine from October 18, 2012 to December 31, 2012 are included in the operating results of Endeavour because the Avion Acquisition was completed on October 18, 2012.
[4] Commercial production at the Nzema Gold Mine was declared on April 1, 2011. Only the results from December 6, 2011 to December 31, 2011 are included in the operating results of Endeavour because the Adamus merger was completed on December 6, 2011.

FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)

- Revenue increased by $198.9 million to $346.1 million from $147.2 million in the prior year. The increase was a result of higher sales of gold compared to the prior year due to a full year of operations from Nzema and an additional 19,115 ounces of gold sold from Tabakoto for the period October 18 to December 31, 2012. The benefit of increased sales volume was coupled with the increase in the average realized price of gold. The average realized price of gold per ounce for the full year of 2012 was $1,581 compared to $1,512 per ounce in the prior year.

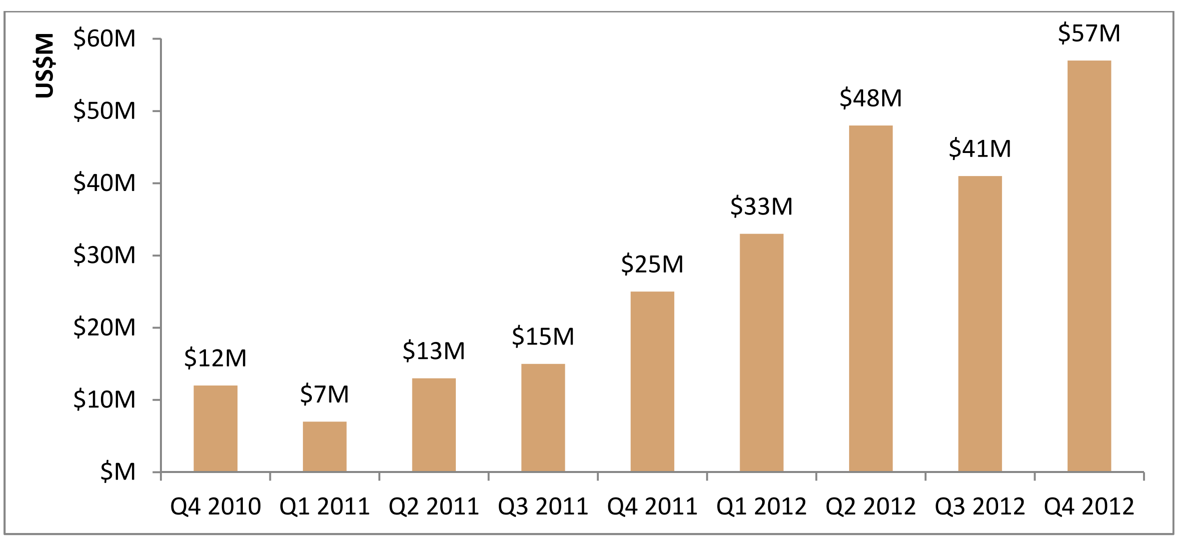
- Earnings from operations increased by $34.5 million to $56.7 million from $22.1 million in the prior year. The increase is attributable to higher gold production and sales from Nzema and Tabakoto.

- Net loss attributable to shareholders of Endeavour of $15.5 million, or ($0.06) per share, compared with net loss of $23.8 million, or ($0.20) per share, in the prior year. The net loss is comprised of a $7.8 million loss on financial instruments, $3.6 million write-down of its investment in associate, $5.3 million incurred for finance costs, $5.8 million of one-off costs related to the acquisition of Avion, $3.3 million of costs related to three legal cases that were concluded favorably and a $1.5 million settlement of the Gold Reserve Inc. ("Gold Reserve") claim, current income taxes of $13.0 and deferred income taxes of $30.4 million. Adjusted net earnings of $35.8 million or $0.13 per share for the full year 2012. See Non-GAAP Measures section which provides a reconciliation of net earnings to adjusted net earnings:

- The three gold mine operations are forecasted to achieve a cash margin[1] of approximately $213.0 million for 2013 (based on a $1,600 realized gold sales price and mid-range of production and cost guidance for 2013).

- Operating cash margin[1] from mine operations increased by $113.4 million to $179.2 million in 2012. The significant increase in yearly cash flow is a direct result of the inclusion of the additional 121,550 ounces of gold sold from Nzema and Tabakoto.

The following table summarizes the quarterly cash margin[1] in millions of dollars for the last eight quarters, with the first and second quarters of 2012 adjusted for $8.5 million of cash from March 2012 production received in early April 2012:



[1]Cash margin and adjusted net earnings are non-GAAP financial performance measures with no standard meaning under IFRRS. Refer to Non-GAAP Measures on page 41.

FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)

- Cash and cash equivalents and gold bullion were $151.1 million at December 31, 2012 which includes $200 million drawn down from the $200 million corporate debt facility compared to $115.3 million at December 31, 2011.

- The Corporation has accumulated a holding of 27,000 ounces of gold bullion with a cost of $46.2 million (fair value of $45.2 million) at December 31, 2012, in order to offset long-term hedging and to maintain financial flexibility.

- In December 2012, the Corporation reduced its gold hedge program by closing out the 2013 gold hedge positions at Tabakoto (12,132 ounces: 6,066 ounces at $700 per ounce and 6,066 ounces at $900 per ounce) and Nzema (10,000 ounces at $1,061.75 per ounce) for a total cash settlement of $17.3 million. The close out of the 2013 hedge deliveries means that all of Endeavour's 2013 gold production will be sold into the spot market.

- In December 2012, the Corporation drew down the remaining $100.0 million of its $200.0 million four year revolving corporate loan facility ("Corporate Facility") to fund the gold bullion position, buy back the 2013 hedges, repay the Banque Atlantique Mali ($27.9 million) credit facility and maintain a high level of cash liquidity.

GROWTH PROFILE

Over the past several years, Endeavour has completed three acquisitions to bring three producing mines and two advanced stage projects into the Corporation. The Corporation owns the Nzema Gold Mine in Ghana, the Youga Gold Mine in Burkina Faso, and the Tabakoto Gold Mine in Mali, which together produced 310,778 ounces of gold in 2012 and is generating significant operating cash flows to fund growth from our project pipeline in West Africa. During 2013 Endeavour is focused on maximizing the efficiency and cash generation of its existing operations while delivering on its considerable internal growth opportunities.

Endeavour is expanding its production to 450,000 ounces per year in 2014 through the following:

- Completion of the Tabakoto mill expansion from 2,000 to 4,000 tonnes per day, which is expected to increase the production rate from 100,000 to over 150,000 ounces per year; the expansion is nearing completion with ramp-up in the second quarter of 2013; and

- Completion of the construction of the Agbaou Gold Mine, which is expected to begin production in the first quarter of 2014 for an additional 103,000 ounces per year over an eight year mine life.

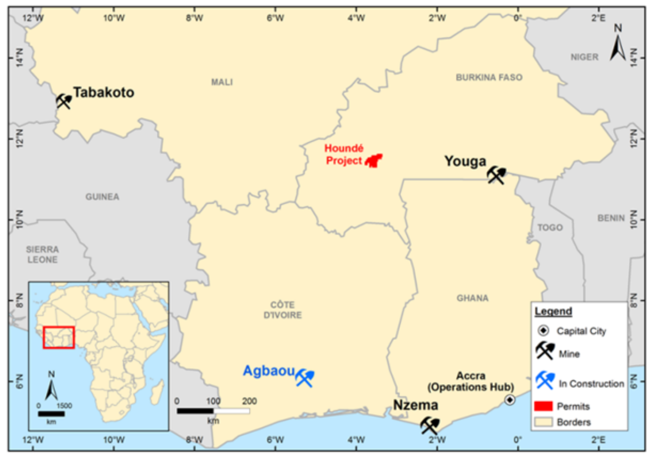


Figure 1: Endeavour's West African mines and feasibility project

A second growth phase to reach annual gold production of more than 550,000 ounces is now being targeted as a result of the positive PEA on the Houndé Project. The January 2013 PEA estimated potential average annual production of 160,000 ounces per year over a ten year mine life beginning in 2016. A feasibility study is underway on Houndé and is scheduled for completion by the end of 2013.

Endeavour anticipates that, at current market prices, it can fund its currently planned capital expenditure program over the next three to four years, including Houndé, from its financial resources. In view of changing market conditions, and potential changes and updates to the Corporation's project development and implementation plans as they evolve and mature, the Corporation must maintain its financial flexibility and liquidity. Endeavour believes this should be achieved by expanding its bank credit facilities rather than accessing the equity markets.

Endeavour is well positioned to achieve its growth objectives based on:

- Substantial cash margins[1] (revenues less cash costs and royalties) are funding development and exploration (for the year ended December 31, 2013, the Nzema, Tabakoto and Youga mines are expected to generate $213.0 million of cash margin, allowing investments in mine operations, development and exploration of $227 million);

- Financial position at December 31, 2012 of $151.1 million of cash and cash equivalents and gold bullion, which includes $200 million drawn from the $200 million debt facility; and

- Management team with demonstrated experience in mine building, exploration and operations, as well as company building and financing.

[1] Cash margin is a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 41.

OUTLOOK

During 2013, Endeavour will be focused on realizing growth from existing assets with a $195.0 million capital program and $32.0 million of exploration and feasibility study programs. In addition to the Agbaou construction, the Tabakoto mill expansion and the capital needs of Nzema and Youga, Endeavour is working to complete the access development at Segala and focus exploration at Tabakoto, Hounde and Kofi. In order to reduce costs and become more efficient Endeavour is implementing a cost reduction and profit improvement plan at Tabakoto. The first stage of the plan was the closure of the Avion Toronto corporate office and elimination of virtually all the corporate management roles by the end of November 2012. Tabakoto mine management now report directly to Endeavour operations management and Chief Operating Officer in Accra, Ghana. During this critical transitional period, operations and corporate management at Endeavour have taken a very hands-on management approach with strong support from the Tabakoto management team, which has seen the commencement of significant change.

The cost reduction and profit improvement program at Tabakoto, which began implementation in December 2012, has been and will continue to be a key focus for the mine and corporate management during the first year of ownership. Key elements of the plan include a significant reduction of employees and contractors during the fourth quarter of 2012 and into 2013. The total workforce has been reduced from approximately 1,950 in November 2012 to less than 1,575 at the end of February 2013. Once the mill expansion is complete and the construction contractors leave site the workforce will be below 1,450. Further cost reduction measures now being implemented include:

- The January termination of the open pit mining contractor and the use of an owner fleet (currently being rented), which has started to improve performance;
- Reduction of reliance on ad hoc use of contractors;
- Prioritization of underground resource development along with rigorous mine planning, as well as renegotiation with the underground contract miner regarding a longer term, more cost effective contract;
- Commencement of initiatives to reduce power consumption and power generation costs;
- Optimization and reduction of light duty vehicles, which will reduce related costs such as fuel, repairs and maintenance;
- Reduction of commercial and administration costs, such as optimizing catering and camp management and merging of the legacy Bamako offices of Avion and Endeavour;
- Review of working capital with a focus on reducing levels of inventory, VAT receivable and other balances;
- Examination of joint purchasing opportunities with the other Endeavour mines; and
- Implementing cost budgeting, reporting and follow-up through standardization of systems and reports, as well as replacing the inadequate existing systems.

Further to the Tabakoto cost reduction program, Endeavour is engaged in cost containment measures at Nzema and Youga in order to continue to reduce the workforce and review costs across the mines through the review of joint purchasing, power efficiency and other activities. As a group, Endeavour is focused on improving cash generation and overall cash flows; a review of working capital levels and efficiency is being implemented.

In addition, Endeavour has closed the legacy corporate offices of Adamus in Perth and Avion in Toronto, which will result in corporate costs savings of approximately $4.0 million in 2013.

Endeavour's future profits, cash flows and financial position are strongly linked to the price of gold. Management believes that the mid to long term economic environment is likely to remain supportive for gold prices. Endeavour is largely unhedged and has strong exposure to movements in the gold price. The residual gold hedge currently in place represents approximately 3% of reserves. The 2013 hedge has been removed so that all 2013 gold production will be sold on the spot market. To strengthen its financial flexibility, Endeavour is seeking to increase its corporate debt facility to an amount above the current $200 million.

OUTLOOK (CONTINUED)

For 2013, full year guidance for the Nzema, Tabakoto and Youga gold mines is for production of between 310,000 and 345,000 ounces of gold. Endeavour reiterates its production guidance for the year.

After completing several months of 2013, Endeavour is reiterating its annual guidance for Youga cash costs, however we are increasing the range for cash costs at Nzema from $780 to $820 per ounce to $850 to $900 due to the slower than expected transition to full production at the Adamus pits, which contain the higher grade ore reserves. In addition, we are increasing the range of cash costs at Tabakoto from $830 to $870 per ounce to $880 to $920 due to the time lag for implementation of some of the cost savings measures at the mine.

The Tabakoto mine is undergoing a significant restructuring and reorientation period due to the implementation of Endeavour's management style after the acquisition of Avion, a cost reduction program and finalization of the mill expansion. Due to these significant changes and the time lag for implementation of some of the cost savings measures management will continue to monitor progress. The following table summarizes Endeavour's guidance for 2013:

Mine	Gold Production (Ounces 100% basis)			Cash Cost ($/ounce)
	2011 Actual	2012 Actual	**2013 Guidance range**	**2013 Guidance range**
Nzema, Ghana	90,026	109,446	**100,000 - 110,000**	**$850 - $900**
Youga, Burkina Faso	87,264	91,030	**75,000 - 85,000**	**$740 - $780**
Tabakoto, Mali	91,200	110,301	**135,000 - 150,000**	**$880 - $920**
Total	268,490	310,777	**310,000 - 345,000**	**$840 - $880**

[1] includes purchased ore.

Further to operations, Endeavour has a signficant 2013 capital and exploration program of $227.0 million that is allocated as follows:

- $17.0 million of sustaining capital comprised of $3.0 million at Nzema, $4.5 million at Youga and $9.5 at Tabakoto;
- $190.0 million of development capital, with the most significant items being $106.0 million for the Agbaou construction, $7.0 million for the Tabakato mill expansion and $29.0 million for underground ramp and access development at the Segala and Tabakoto underground mines, $17.0 million for the Anwia and Teleku-Bokazo resettlements at Nzema and $12.0 million for the Houndé Gold Project feasibility study; and
- $20.0 million exploration, most of which is directed towards Tabakoto and Kofi.

OPERATIONS REVIEW

Nzema Gold Mine, Ghana

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

	Three Months Ended December 31,		Year Ended December 31,	
Operating Data:	2012	2011[3]	2012	2011[3]
Tonnes of ore mined (000's)	494	648	2,002	1,809
Average gold grade mined (grams/tonne)	1.47	1.65	1.54	1.80
Tonnes of ore milled (000's)	528	533	2,144	1,556
Average gold grade milled (grams/tonne)	1.83	1.64	1.79	1.72
Gold ounces produced (including purchased ore):	26,663	25,971	109,447	79,683
Gold ounces produced from purchased ore:	3,768	1,961	10,253	3,178
Gold ounces sold:	26,663	29,104	109,295	81,332
Realized price				
Gold ($/ounce)[2]	1,609	1,613	1,577	1,549
Total cash cost per gold ounce produced				
(excluding royalties) ($/ounce)[1]	911	617	753	585
(excluding royalties and purchased ore)($/ounce)[1]	902	570	722	560
Financial Data (US dollars in thousands)				
Revenues (Net of royalties)	42,913	46,955	172,335	125,977
Royalties	2,846	2,057	9,667	5,644
Earnings from mine operations	5,884	37,971	32,623	54,934

[1] Total cash cost is a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 41.
[2] The realized price is the average price received for all ounces sold including sales at the gold hedge price.
[3] Commercial production was declared on April 1, 2011, therefore the information is for the nine month period April 1, 2011 to December 31, 2011. Only the results from December 6, 2011 to December 31, 2011 are included in the operating results of Endeavour because the Adamus merger was completed on December 6, 2011.

The highlights for year ended December 31, 2012 for Nzema are as follows:

- Gold production was 109,447 ounces and includes 10,253 ounces from ore purchased from an independent producer;
- The process plant treated 2,143,993 tonnes of ore;
- Revenue (net of royalties) was $172.3 million resulting from the sale of 109,295 ounces of gold at a realized price[2] of $1,577 per ounce;
- Total cash cost[1] (excluding royalties) for the year per gold ounce produced was $753 including purchased ore and $722 excluding purchased ore. The costs were higher in the fourth quarter of 2012 due to a higher blend of lower grade and lower recovery Salman transitional ore, and costs associated with the development of the Adamus pits as Nzema transitions into the Adamus pits. This has taken longer than expected due to protracted negotiations in the resettlement process. This negotiation is now complete and Nzema has been given full access to the mine. The resettlement is progressing and is expected to remain within budget. The development of the Adamus starter pit is ramping up slowly and this together with lower than expected grade from the top layers of the pit results in lower gold production and higher costs to be expected into the first quarter of 2013. Gold production has improved in March and is expected to continue at planned levels during the second quarter and second half of the year;
- Nzema had a strong performance during its second year of operations and generated $87.8 million of operating cash flow from mine operations;
- Nzema generated $32.6 million in earnings from mine operations, which was lower than in 2011 due to the increase in cash costs and the inclusion of the depreciation on the Adamus purchase price allocation accounting;
- One lost time injury was recorded during the year; and

OPERATIONS REVIEW (CONTINUED)

Nzema Gold Mine, Ghana *(continued)*

- In order to improve consistency of power supply, installation of a back-up diesel power generation plant advanced during the fourth quarter, with commissioning recently completed.

Highlights for the three months ended December 31, 2012 are as follows:

- Gold production was 26,663 ounces and includes 3,768 ounces from ore purchased from an independent producer;
- The process plant treated 527,878 tonnes of ore, which was on plan;
- Revenue (net of royalties) was $42.9 million resulting from the sale of 26,663 ounces of gold at a realized gold price[2] of $1,609 per ounce;
- Total cash cost[1] (excluding royalties) per gold ounce produced was $911 including purchased ore and $902 excluding royalties and purchased ore. Costs were higher due to a greater proportion of purchased ore (at a higher cost of production), higher reagent and power costs and more single shift mining than planned due to the slower than expected move in to the Adamus pits;
- Nzema generated $17.4 million of operating cash flow from mine operations; and
- Nzema generated $5.9 million in earnings from mine operations.

The Corporation holds a 90% interest in the Nzema Gold Mine with the Government of Ghana holding the remaining 10%. The Nzema mining licences 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. The focus since production has been on improving the mining productivity, increasing plant throughput and mineral reserve addition. Nzema has subsequently met its guidance targets and delivered consistent operational results.

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.

Nzema includes a series of shallow oxide pits along the Salman Trend, together with the Adamus and Bokrobo 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, 2012 was primarily from Salman Central, and Salman South 1A and 1B pits. A total of approximately 3,665,364 bank cubic metres ("BCM") of material was mined during the year ended December 31, 2012 including 2,002,405 tonnes of ore. Mining began at the Adamus pits, which account for approximately 50% of reserves, in December of 2012. Mining at the Adamus pits is ramping up during the first quarter of 2013, with lower grade material being accessed initially, which will result in lower ounces and higher costs during the first half of 2013. Meanwhile, mining from the Salman pits is accessing transition ore, which has lower grade and recoveries. Accordingly, the results in 2013 from Nzema are expected to be stronger in the second half of the 2013 year as full access to the Adamus pits is achieved and the overall blend of higher grade and higher recovery ore from Adamus pits increases.

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.

[1] Total cash cost is a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 41.
[2] The realized price is the average price received for all ounces sold including sales at the gold hedge price.

OPERATIONS REVIEW (CONTINUED)

Nzema Gold Mine, Ghana *(continued)*

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.

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 six 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 1,010 workers, including 265 full time Endeavour employees and 745 contractors, a reduction of over 30% since the beginning of the year as operations reached steady state and cost reduction programs were initiated. Only five 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.

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. In Ghana, the Corporation has provided training for more than 180 young people from local communities in a wide range of skills. This ongoing initiative within 16 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.

During the year ended December 31, 2012, highlights from Endeavour's community projects include:

- Following their graduation from technical training classes, 40 local youths entered a three month practicum phase with experienced local technicians to help them gain practical experience in their specialized fields;
- Completed Alternative Livelihood Program for 30 vulnerable households from Salman in projects like poultry, pig-rearing, and bakery training to support vulnerable households in attaining self-sufficiency;
- Completed Phase II Livelihood Restoration Program for 60 farmers. The program assisted them to acquire farmlands, planting materials (such as maize, cassava, plantain, oil palm and cocoa), farm tools, fertilizers and herbicides. The farmers were trained in modern farming methods and assisted with extension services;
- Donated medical equipment to the newly constructed Salman Health Centre to commence operations;
- Commenced construction of two sixteen-seater aqua-privy toilet facilities for the Anwia and Aluku communities to improve the sanitation situation in the project area. The projects will be completed in the first quarter of 2013; and
- Assisted the Nzema East Municipal Assembly in constructing a conservancy farm in Axim and also supported the Nzema East Education Office during the annual Teachers' Awards.

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 year ended December 31, 2012:

	Three Months Ended December 31,		Year Ended December 31,	
Operating Data:	2012	2011	2012	2011
Tonnes of ore mined (000's)	257	254	1,065	1,067
Average gold grade mined (grams/tonne)	3.14	2.78	3.09	3.35
Tonnes of ore milled (000's)	241	248	1,013	940
Average gold grade milled (grams/tonne)	3.03	3.00	2.93	3.08
Gold ounces produced:	21,651	21,586	91,030	87,264
Gold ounces sold:	22,943	23,751	90,477	90,688
Realized price				
Gold ($/ounce)[2]	1,616	1,582	1,585	1,518
Total cash cost per gold ounce produced[1]				
(excluding royalties) ($/ounce)	877	623	678	644
Financial Data (US dollars in thousands)				
Revenues (Net of royalties)	37,079	37,567	143,384	137,643
Royalties	2,009	1,592	7,617	5,532
Earnings from mine operations	10,119	19,585	63,118	62,330

[1] Total cash cost is a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 41.
[2] The realized price is the average price received for all ounces sold including sales at the gold hedge price.

The highlights for the year ended December 31, 2012 for Youga are as follows:

- Gold production increased to 91,030 ounces compared to 87,264 ounces produced during the year ended December 31, 2011;
- The process plant treated a record 1,012,829 tonnes of ore compared to 940,168 tonnes of ore for the year ended December 31, 2011;
- Revenue (net of royalties) was $143.4 million compared to $137.6 million for the year ended December 31, 2011. Gold ounces sold were 90,477 in 2012 compared to 90,688 ounces in 2011. The realized gold price[2] per ounce for the year ended 2012 was $1,585 compared to $1,518 in 2011. The realized gold price[2] for the year 2011 included the delivery of 33,080 ounces into the gold hedge program at $700 per ounce;
- Total cash cost[1] (excluding royalties) per gold ounce produced was $678 compared to $644 in the same period in 2011;
- Youga had another year of strong performance and generated $85.7 million of operating cash flow from mine operations compared to $59.7 million for the year ended December 31, 2011;
- Youga generated $63.1 million in earnings from mine operations;
- Two lost time injuries were reported during the year, however there were no reportable environmental incidents during the year; and
- Phase II of the Ghana Grid Power project, which aims to improve grid power supply quality and availability, was advanced toward completion during the fourth quarter of 2012 and was commissioned in January 2013.

OPERATIONS REVIEW (CONTINUED)

Youga Gold Mine, Burkina Faso *(continued)*

The highlights for the three month period ended December 31, 2012 are as follows:

- Gold production was 21,651 ounces compared to 21,586 ounces produced in the same period in 2011;
- The process plant treated 241,218 tonnes of ore compared to 247,857 tonnes of ore treated for the same period in 2011;
- Revenue (net of royalties) was $37.1 million compared to $37.6 million in the same period in 2011. Gold ounces sold were 22,943 in the fourth quarter of 2012 compared to 23,751 ounces in the corresponding period of 2011. The realized gold price[2] per ounce during three months ended December 31, 2012 was $1,616 compared to $1,582 in the same period in 2011. The realized gold price for the three months ended 2011 included the delivery of 5,668 ounces into the gold hedge program at $700 per ounce;
- Total cash cost[1] (excluding royalties) per gold ounce produced was $877 compared to $623 in the same period in 2011. The increased costs in the fourth quarter were due to increased total tonnes mined and grade control activities, exceptional plant maintenance and the payment of the bonuses for exceeding planned gold production for the year;
- Youga generated $30.0 million of operating cash flow from mine operations; and
- Youga generated $10.1 million in earnings from mine operations.

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. During the fourth quarter, mining was from the Main Pit and West Pit 3. In January 2013, results from the Ouaré PEA were released, showing potential to add three years to the Youga mine life by trucking ore from Ouaré to the Youga plant, some 40 kilometres away. Youga mine planners are currently incorporating Ouaré into the mine plan. (See Exploration – Youga section below for more details on the Ouaré PEA.)

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.

[1] Total cash cost is a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 41.
[2] The realized price is the average price received for all ounces sold including sales at the gold hedge price.

OPERATIONS REVIEW (CONTINUED)

Youga Gold Mine, Burkina Faso *(continued)*

Youga employs approximately 805 workers in total, including 383 full time Endeavour employees and 422 contractors. Most of the work force is local, with less than 4% of the total being expatriate workers. There is extensive training available for the local work force for both unskilled and skilled positions. In the longer term, it is anticipated that Burkinabe nationals will fill the majority of the operating and management positions within BMC.

Community initiatives at Youga pertain to basic needs such as healthcare, food and drinking water supply, public infrastructure maintenance, education and skills development. Since 2006, our 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, 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. Currently, we are constructing a canteen for the Youga primary school.

Construction of the Youga high school project was completed in the fourth quarter of 2012 at a cost of $0.3 million. The new high school is in close proximity to the Youga village and will serve the village and other local communities within a 10 kilometre radius (approximately 240 students).

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 period October 18, 2012 to December 31, 2012:

	Three Months Ended December 31,		Year Ended December 31,	
Operating Data:	2012	2011	2012	2011
Tonnes of ore mined (000's)	161	-	161	-
Average gold grade mined (grams/tonne)	4.28	-	4.28	-
Tonnes of ore milled (000's)	150	-	150	-
Average gold grade milled (grams/tonne)	4.36	-	4.36	-
Gold ounces produced:	19,985	-	19,985	-
Gold ounces sold:	19,115	-	19,115	-
Realized price				
Gold ($/ounce)[2]	1,589	-	1,589	-
Total cash cost per gold ounce produced[1]				
(excluding royalties) ($/ounce)	1,250	-	1,250	-
Financial Data (US dollars in thousands)				
Revenues (Net of royalties)	30,378	-	30,378	-
Royalties	1,937	-	1,937	-
Loss from mine operations	(439)	-	(439)	-

[1] Total cash cost is a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 41.
[2] The realized price is the average price received for all ounces sold.

The highlights for the period October 18, 2012 to December 31, 2012 for Tabakoto are as follows:

- Gold production was 19,985 ounces with good recoveries at approximately 94% for the period;
- Revenue (net of royalties) was $30.4 million;
- Gold ounces sold were 19,115 with a realized gold price[2] per ounce of $1,589;
- Total cash cost[1] (excluding royalties) per gold ounce produced was $1,250 and was only included in consolidated cash costs from October 18, 2012. Tabakoto's cash cost per ounce was high in this abbreviated period due to slightly lower grade ore through the mill, effects of transition to Endeavour's management style and culture coupled with changes to accounting judgments and estimates that resulted in including certain expenditures (previously included in sustaining and development capital) as operating costs, which is in-line with standard industry practice. Overall for the fourth quarter total mine cash expenditures (capital and operating) were lower than forecast by Avion prior to the acquisition, however Endeavour has allocated more to operating expenses and sustaining capital in-line with standard industry practice.
- For further discussion on the measures being taken to reduce costs and improve performance see the paragraphs below regarding the Tabakoto cost reduction and profit improvement plan being implemented in 2013;
- Tabakoto generated $12.0 million of operating cash flow from mine operations;
- Tabakoto incurred $0.4 million in losses from mine operations;
- No lost time injuries were reported for the period;
- The mill expansion re-commenced during the quarter with all major contractors on site and on plan to complete the expansion in early 2013;

OPERATIONS REVIEW (CONTINUED)

Tabakoto Gold Mine, Mali (continued)

- Underground development at Segala re-started during the quarter and successfully overcame the difficult ground encountered in March 2012. Ramp development rates have improved significantly into the first quarter of 2013;
- There were no disruptions to the mine operations or supply chain due to the increased military activities in Northern Mali in early 2013; and
- A major business systems upgrade has been started 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 currently being implemented. Endeavour is also strengthening cost budgeting, reporting and follow-up through standardization of systems and reports, as well as replacing the inadequate existing systems. Refer to Controls and Procedures section of this Management's Discussion and Analysis for a review of management's assessment of Avion's controls for 2012.

The Tabakoto property is 156 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.

In 2012, mining was from two open pits, Djambaye (by contractor) and Dioulafoundou (owner), and the Tabakoto underground mine (by contractor). Mining of Dioulafoundou was completed in November 2012 and Endeavour moved its fleet to the Stage 2 expansion of the Djambaye pit. In January 2013 Endeavour took over the entire open pit mining operation at Djambaye and improvements have been implemented. For 2013, production will be split approximately 50/50 between underground and open pit. Underground mining of the Tabakoto deposit is by long-hole open stoping from two portals at the bottom of the Tabakoto pit. Underground development is underway at the Segala deposit, which forms approximately half of the total resources at Tabakoto. Segala is located five kilometres north of Tabakoto.

The mill expansion is targeting an increase in the processing rate from 2,000 to 4,000 tonnes per day, which will also provide economies of scale. Gold is extracted via a conventional CIL plus gravity circuit with a recovery rate of 92% to 95%. At Tabakoto the physical installation of the mill expansion and upgrade has been finalized with the major items on the critical path completed and include:

- The mill supplier has been to site and dry-commissioned the mill;
- The mill was run for a few hours to check all instrumentation for vibration, temperature and alignment of bearings, as well as gears and power integration to the new mill;
- A two day shutdown was completed in order to tie-in all the major pipework, a new thickener, leach tanks and the tailings pipeline, as well as the conveyor transfer points;
- The gravity circuit, new gold room, cyanide installation and minor electrical work is currently being completed; and
- Wet-commissioning started at the end of March and ramp-up is expected to occur in April, which should increase the annual production rate to approximately 150,000 ounces per year. In 2013 production of 135,000 to 150,000 ounces is expected, given the expansion is only operational for a portion of the year.

OPERATIONS REVIEW (CONTINUED)

Tabakoto Gold Mine, Mali (continued)

Figure 3: Tabakoto mill expansion

During the final months of 2012 after the acquisition of Avion was completed, Tabakoto underwent a period of transition due to the acquisition and change in management and culture. The first stage of the transition was the closure of the Avion Toronto corporate office and elimination of virtually all the corporate management roles by the end of November 2012. Tabakoto mine management now report directly to Endeavour operations management and Chief Operating Officer in Accra, Ghana. During this critical transitional period, operations and corporate management at Endeavour have taken a very hands-on management approach with strong support from the Tabakoto management team, which has seen the commencement of significant change. The new mine management team has focused extensively on reviewing all parts of the business in order to refocus the mine on reducing costs and improving performance. This wide-ranging review has resulted in the first zero-based, bottom-up budget being prepared and adopted by the mine management team, including all department heads. This budget process will result in a significant change in culture, focus and accountability in 2013 as the management team prepares to improve efficiency during and after completion and ramp-up of the mill expansion in the second quarter. In addition, economies of scale should be achieved as fixed costs are spread over a larger production base once the mill expansion is complete. A key area of focus during this initial transition period has been workforce numbers, which have been high historically.

OPERATIONS REVIEW (CONTINUED)

Tabakoto Gold Mine, Mali (continued)

Figure 3: Tabakoto mill expansion

Tabakoto employs approximately 1,800 workers in total as at December 31, 2012, including 1,100 full time Endeavour employees and 700 contractors, of which approximately 150 are dedicated to the mill expansion project. 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 less than 1,575 at the end of February 2013. Once the mill expansion is complete and the construction contractors leave site the workforce will be below 1,450. Further cost reduction measures now being implemented include:

- The January termination of the open pit mining contractor and the use of an owner fleet (currently being rented), which has started to improve performance;
- Reduction of reliance on ad hoc use of contractors;
- Prioritization of underground resource development along with rigorous mine planning, as well as renegotiation with the underground contract miner regarding a longer term, more cost effective contract;
- Commencement of initiatives to reduce power consumption and power generation costs;
- Optimization and reduction of light duty vehicles, which will reduce related costs such as fuel, repairs and maintenance;
- Reduction of commercial and administration costs, such as optimizing catering and camp management and merging of the legacy Bamako offices of Avion and Endeavour;
- Review of working capital with a focus on reducing levels of inventory, VAT receivable and other balances;
- Examination of joint purchasing opportunities with the other Endeavour mines; and
- Implementing cost budgeting, reporting and follow-up through standardization of systems and reports, as well as replacing the inadequate existing systems.

Proven and probable reserves are 0.712 million ounces, with approximately 84% being underground reserves at an average grade of 4.6 g/t gold. Resources (inclusive of reserves) are 1.077 million ounces of Measured and Indicated and 0.966 million ounces of Inferred. Extensive underground drilling is ongoing at the Tabakoto deposit to find new resources and convert existing resources to reserves.

DEVELOPMENT PROJECTS REVIEW

Agbaou Gold Project, Côte *d'Ivoire*

During 2012, Endeavour received its mining permit for Agbaou from the government of Côte d'Ivoire. Construction began late in the second quarter of 2012 after receipt of all the necessary construction permits, with gold production expected to be achieved during the first quarter of 2014. Endeavour has an 85% interest in Agbaou Gold Operations S.A., its subsidiary which is developing Agbaou, while the State of Côte d'Ivoire and SODEMI (a State owned mining company) have a 10% and a 5% free carried interest, respectively.

Construction of the Agbaou gold mine is now more than 50% complete. During 2012, long-lead order items, including mills, transformers and power lines were ordered. Earthworks began in late September 2012, with all construction areas cleared and the access road now complete. In addition, civil works are advancing on schedule, with CIL ring beams and the foundations for SAG and ball mills poured. Structural steel deliveries for the plant began in February and are ongoing and the CIL tank stake is completed. Construction of the camp is nearing completion with approximately 900 workers now on site. Furthermore, the village relocation construction for approximately 250 residents is over 95% complete and Endeavour expects relocation to occur in early April 2013.

Figure 4: CIL Tanks March 2013

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 will be supplied from the national grid (91kV), and a 1.6 MW diesel power plant has been included in the mine plan for backup purposes.

On July 12, 2012 Endeavour announced an updated NI 43-101 compliant technical report (the "SENET Report") had been completed on the Agbaou Gold Project summarizing the geology, mineral resources and reserves estimate, mining and mine production schedule, metallurgy, process plant design, infrastructure

DEVELOPMENT PROJECTS REVIEW (CONTINUED)

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

design, updated capital and operating cost estimates and financial evaluation, which is available on www.sedar.com. The highlights from the SENET Report, on a 100% basis include:

- Measured and indicated resources of 1.157 million ounces comprised of 14.970 million tonnes at 2.43 g/t (at 0.5 g/t cut-off);
- Proven and probable reserves of 0.905 million ounces comprised of 11.075 million tonnes at 2.54 g/t (for more details refer to Reserves and Resources section below);
- Open pit mine and gold plant (Figure 3) designed to treat 1.6 Mtpa saprolite ore or 1.34 Mtpa bedrock ore. The plant design incorporates a conventional gravity and CIL circuit for a recovery rate of 92.5%;
- Average gold production of 103,000 ounces per year over an eight year mine life;
- A construction capital cost of $121.0 million, plus pre-production mining costs, working capital and contingencies of $38.0 million for a total upfront funding requirement of $159.0 million;
- Forecast life of mine direct cash cost of $635 per ounce, using contractor mining; and
- The project yields, on an after-tax basis an Internal Rate of Return ("IRR") of 28% at a gold price of $1,250. At a $1,625 gold price, the IRR increases to 48%.

Endeavour selected Lycopodium Minerals Pty Ltd ("Lycopodium") as the Engineering, Procurement and Construction Manager ("EPCM") for the Agbaou Gold Mine processing plant and certain other facilities. Lycopodium is working closely with Endeavour's engineering team, many of whom worked together on the successful construction of the Nzema Gold Mine processing plant.

In addition, the five year mining contract was awarded to BCM International in line with feasibility study estimated costs and over 65% of the total construction cost of $159 million has been committed.

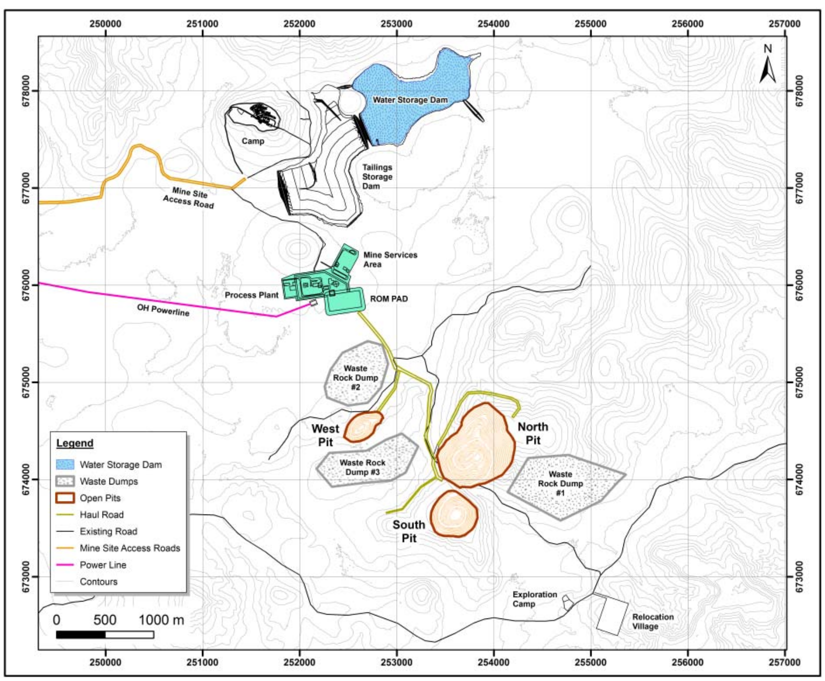


Figure 5: Agbaou mine site plan showing location of three pits, plant and tailings.

DEVELOPMENT PROJECTS REVIEW (CONTINUED)

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

The Agbaou Gold Mine is expected to generate several positive impacts on the social and local environment including;

- Creation of up to 900 jobs during construction and 650 during operations (including employees and contractors);
- Local infrastructure development and increased standard of living;
- Economic growth in local areas and Côte d'Ivoire 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; and
- Social and community development projects.

Endeavour has maintained its community engagement program since the start of its exploration activities. In 2012, 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 approximately six kilometres from Agbaou and can accommodate up to 400 attendees for cultural or public events.

Figure 6: CIL Tanks March 2013

DEVELOPMENT PROJECTS REVIEW (CONTINUED)

Figure 7: SAG and Ball Mill shells under construction

Houndé Project, Burkina Faso, Feasibility Stage

The Houndé Project, which was acquired as part of the Avion transaction on October 17, 2012, 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 January 22, 2013 Endeavour announced the results of a positive NI 43-101 PEA of Houndé as well as an updated mineral resource estimate and positive infill drill results completed subsequent to the resource estimate. The Houndé Project PEA focuses on the Vindaloo Group of deposits that are located 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 200 metres from a 220 Kv power line that extends from Côte d'Ivoire through to Ouagadougou. The nearby village of Houndé contains approximately 22,000 people and is host to two banks and a modern fuel station. A rail line that extends to the port of Abidjan, Côte d'Ivoire lies approximately 25 kilometres east of the deposit area. The project will benefit from Endeavour's experience operating and exploring around the Youga Gold Mine, also located in Burkina Faso.

The PEA considered the owner operated development of two open pit mines over the Vindaloo and Madras northwest zones. The Vindaloo pit would mine a series of closely spaced gold zones along an approximate 4.8 kilometre strike length. The Madras northwest pit would be approximately 900 metres long and would only mine oxide mineralization.

DEVELOPMENT PROJECTS REVIEW (CONTINUED)

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

- Estimated average annual production of 161,000 gold ounces per year over a 10 year mine life, with a total life of mine production of 1.61 million ounces;
- An average 91% process recovery at a milling rate of 8,000 tonnes per day supplying a conventional gravity/CIL circuit;
- Owner operated open pit mining and a potential mineable portion of the resource of 28 million tonnes grading 1.98 g/t Au (at 0.91 g/t Au cut-off);
- Initial start-up capital is estimated at $303 million with sustaining capital estimated at $57 million (excluding VAT and import duties);
- Total initial funding requirement is estimated at $345 million including start-up capital, VAT, import duties and certain first year equipment purchases; and
- Forecast life of mine direct cash cost of $563 per ounces (excluding royalties).

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

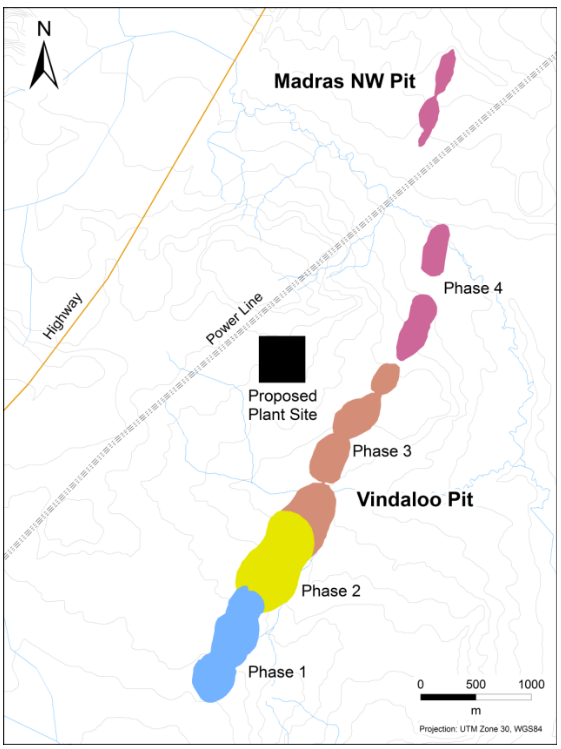


Figure 8: Whittle Pit with Phase 1 in blue at the south end of the Vindaloo deposits

A feasibility study on Houndé is underway and is scheduled for completion by the end of 2013. The study is being led by Lycopodium, our EPCM contractor on the Agbaou Mine construction and former EPCM contractor on the Nzema Gold Mine build. All of the studies that will be incorporated into the feasibility study are on schedule. Infill drilling has been completed with the objective of moving in pit inferred resources to measured and indicated. Metallurgical testing is well underway and geotechnical drilling has been completed.

EXPLORATION REVIEW

Overview

Endeavour's land package totals more than 11,230 square kilometres across Burkina Faso, Côte d'Ivoire, Ghana, Liberia and Mali, including concessions acquired from Avion during the fourth quarter of 2012. Endeavour published three PEAs after 2012 year-end: one for the newly acquired Houndé project (see Development Projects Review above), the second for the Ouaré deposit near the Youga Gold Mine (both in Burkina Faso) and the third for the Nzema Sulphides in Ghana. In addition to mine site and near mine exploration and work on the Houdé feasibility study, Endeavour is also exploring the advanced stage Kofi project in Mali, acquired with Avion.

Excluding the newly acquired assets, as of December 31, 2012 exploration spending totaled $33.6 million, with a total of approximately 190,000 metres of drilling having been completed. Approximately $13.4 million of this program was directed towards increasing resources and reserves to extend mine lives at the Nzema and Youga operations, $5.6 million towards increasing resources and reserves at Agbaou, $5.7 million towards delineating resources and conducting further metallurgical testing of the Nzema Sulphides in Ghana, and $8.9 million on project development and the balance towards regional programs.

Kofi Project, Mali

The Kofi project is located on the north side of Randgold's Loulo Mine and Endeavour's Tabakoto Gold Mine in southwestern Mali approximately 400 kilometres by paved highway west of Bamako. The Kofi property covers approximately 435 square kilometres and contains six 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). Endeavour holds a 75% ownership, with the Mali government owing 20% and the remaining 5% held by a private party. Deposits identified to date are within 10 to 40 kilometres by road from Tabakoto.

In 2012, Kofi exploration totalled $1.5 million which included slightly below 10,000 metres of drilling in Kofi C Walia and regional exploration.

The 2013 exploration program at Kofi will include 7,000 metres of diamond drilling as well as 12,000 metres of RC and 38,000 metres of auger drilling with the objectives of identifying additional resources on the property as well as new drill targets. A number of the known resource areas appear to have high-grade shoots within the broader mineralization which require testing. Exploration to date has focused on the southern section of the 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.

EXPLORATION REVIEW (CONTINUED)

Kofi Project, Mali (continued)

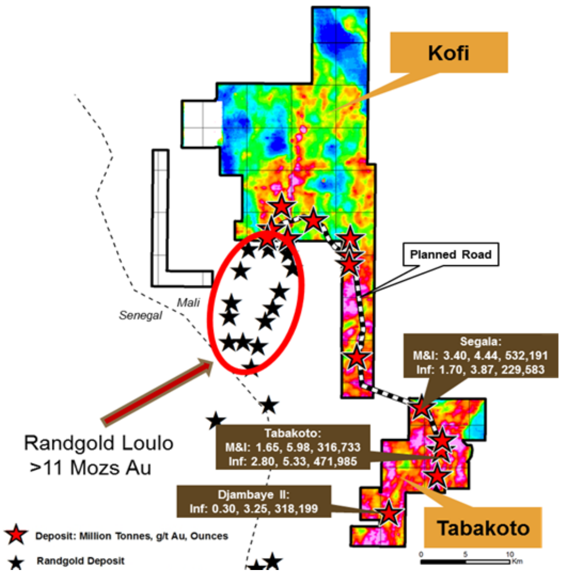


Figure 9: Kofi project showing identified deposits (red stars) and relationship to Loulo and Tabakoto deposits

Nzema Gold Mine & near mine exploration, Ghana

The 2012 Nzema exploration campaign was $11.5 million. In addition to metallurgical testing and engineering studies on the sulphide project, the program included 58,400 metres of RC and core drilling mostly in the immediate mine areas, as well as auger, trench, and soil sampling programs to develop new targets. The exploration program objectives were:

- Delineate and explore the oxides along the Salman Trend;
- Drill the Salman Trend sulphides and conduct metallurgical testwork and engineering studies, with the goal of completing a resource update and a PEA;
- Drill at Aliva and Nfutu to delineate additional resources and convert resources to reserves; and
- Complete exploration drilling at Akropon, Avrebo, and Hotopo prospects.

Exploration highlights for the year ended December 31, 2012 include:

- Completion of the Nzema Sulphide project and establishment of viable treatment route for the refractory sulphide portion of the Salman deposits. The test work assessed the merits of producing a flotation concentrate followed by either ultra-fine grinding, LeachOx, BIOX, or pressure oxidation. A sulphide resource estimate and preliminary economic assessment were prepared on the basis of the flotation followed by pressure oxidation process option which showed an overall recovery of 86%. The resource is 12 Mt at an average grade of 1.59 g/t. The PEA indicates that additional sulphide resources need to be identified before proceeding with further studies;
- Drilling across the site of the old Salman Village and surrounding areas encountered mineralized zones outside of existing planned pits;
- Resource drilling and engineering studies at Nfutu and Aliva have been completed; and
- Regional soil and auger sampling was completed with the aim of extending the reconnaissance level coverage over previously underexplored portions of the Nzema project area.

EXPLORATION REVIEW (CONTINUED)

Youga Gold Mine and near mine exploration, Burkina Faso

The 2012 Youga exploration campaign was $7.5 million that included 49,000 metres of RC and core drilling. The objectives were to increase mine reserves and develop additional resources within the Youga gold belt. The exploration program on the mine permit tested:

- Around and below the Main, West and East pits for potential pit extensions;
- Strike extensions of A2NE, Zergoré, NTV deposits to add resources;
- Several prospects (LaForge, Castel, Beaufort) on the three kilometre long Brasserie Trend; and
- The Leduc deposit.

Exploration along the Youga greenstone belt was $4.8 million and included work on the Bitou permits and also on the Zerbogo and Songo permits southwest of the Youga Gold Mine. Over 23,200 metres of RC and core drilling was completed, with the majority being resource delineation drilling of the Ouaré deposit located 40 kilometres by road from Youga.

Exploration highlights for the year ended December 31, 2012 include:

- Drill results from near-pit areas and satellite deposits are being reviewed and compiled into updated resource and reserve estimates;
- The PEA on the Ouaré deposit examined the production scenarios for Ouaré and concluded that trucking ore approximately 40 kilometres to the Youga Gold Mine as a supplemental feed to existing reserves is preferable to a standalone operation and has potential to add three years to the Youga mine life. The updated Ouaré resource was reported as a Measured and Indicated mineral resource of 3.9 million tonnes at a grade of 1.90 g/t Au containing 239,000 ounces of gold and the Inferred mineral resource of 283,000 tonnes at a grade of 1.93 g/t Au containing 18,000 ounces of gold (cut-off grade of 0.8 g/t Au AMEC, 2012). The PEA results are currently being reviewed by the Mining Department at Youga to refine the scheduling of the Ouaré deposit into the overall mine plan at Youga.

Agbaou Exploration, Côte d'Ivoire

At Agbaou a $6.0 million exploration program was completed by the end of 2012. The objective was to increase resources and reserves in the immediate area of the planned open pits. Accordingly, exploration activity was focused on drilling extensions of new and existing mineralized zones and also testing below the pit limits.

On June 11 and September 6, 2012 Endeavour announced positive drill results from Agbaou, including AGBRC1160 with 15 metres at 5.8 g/t gold and AGBRC1237 with 4 metres at 13.4 g/t. Core drilling below the current pit designs is now completed. Results from the 2012 program are being reviewed and incorporated into an updated mineral resource/reserve update.

Finkolo Project, Mali South

Endeavour holds a 40% interest in the Finkolo joint venture, which was formed in 2003, by Endeavour's Etruscan subsidiary and Resolute is the operator. On March 6, 2012 the Corporation entered into a definitive agreement (the "Agreement") with Resolute Mining Limited ("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. The transaction is subject to a number of conditions, including approval from the Government of Mali for the transfer of the exploration permits. Endeavour anticipates the transaction to be completed by the third quarter of 2013.

YEARLY FINANCIAL AND OPERATING RESULTS

The following tables summarize the Corporation's last three fiscal years;

(US dollars in thousands except ounces)	Year Ended December 31, 2012[1]	Year Ended December 31, 2011[2]	Six Months ended December 31, 2010
Gold Revenues	$ 346,097	$ 147,227	$ 59,399
Gold produced (ounces)	220,462	92,309	44,407
Gold sold (ounces)	218,887	97,377	47,366
Realized price Gold ($/ounce)[3]	1,581	1,512	1,259
Total cash cost per gold ounce produced (excluding royalties) ($/ounce)[4]	767	664	615
Cash flows from mine operations	184,467	60,484	22,160
Net earnings (loss) attributable to shareholders of Endeavour Mining Corporation	(15,486)	(23,777)	74,265
Basic earnings (loss) per share	(0.06)	(0.20)	0.69
Diluted earnings (loss) per share	(0.06)	(0.20)	0.69
Cash and cash equivalents and gold bullion	151,136	115,279	167,300
Total assets	1,755,813	962,215	455,027

[1] includes the Tabakoto Gold Mine operations for the period October 18, 2012 to December 31, 2012.
[2] includes the Nzema Gold Mine operations for the period December 6, 2011 to December 31, 2011.
[3] The realized price is the average price received for all ounces sold including sales at the gold hedge price.
[4] Total cash cost is a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 41.

Year ended December 31, 2012 compared to the year ended December 31, 2011

- Revenue for the year ended December 31, 2012 increased $198.9 million to $346.1 million from $147.2 million in the prior year. The increase was a result of higher gold sales compared to the prior year due to the inclusion of a full year of operations from Nzema and the acquisition and inclusion of Tabakoto during the fourth quarter of 2012. Gold ounces sold increased from 97,377 in 2011 to 218,887 ounces for the current year. The benefit of increased sales volume was coupled with the increase in the average realized price of gold. The realized price of gold per ounce for the full year of 2012 was $1,581 compared to $1,512 per ounce in the prior year. The spot gold price reached its record high of $1,921 per ounce during the third quarter of 2011.

- Operating expenses for the year ended December 31, 2012 increased by $111.0 million to $177.1 million due to a full year of operations from Nzema and the acquisition of Tabakoto during the fourth quarter of 2012. In addition, during the second quarter of 2012 the Corporation incurred $4.7 million of one-off expenses at Nzema, relating primarily to withholding taxes for the pre-commercial period, from the Ghanaian Tax Authority audit for its taxation years June 2007 to June 2011. Furthermore, during the fourth quarter of 2012 the Corporation settled one-off expenses of $2.6 million of historical payables together with exchange rate adjustments and interest due as a result of the successful final

YEARLY FINANCIAL AND OPERATING RESULTS (CONTINUED)

Year ended December 31, 2012 compared to the year ended December 31, 2011 (continued)

arbitration decision relating to Burkina Faso Mines Services S.A., and paid one-off expenses of $0.7 million relating to the arbitration case with GBM Projects Limited.

- Depreciation and depletion increased by $53.7 million to $74.1 million due to $34.3 million in 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 and the merger with Nzema in the fourth quarter of 2011.

- Earnings from mine operations for the year ended December 31, 2012 increased by $34.3 million to $94.9 million from $60.6 million in the prior year. The increase is attributable to higher gold production and sales from Nzema (and full year inclusion of results) and the addition of Tabakoto since October 18, 2012.

- Corporate costs increased by $4.6 million to $22.1 million. The increase relates to a full year inclusion of corporate costs from the Adamus merger and the inclusion of costs of Avion since the October 18, 2012 acquisition. In October 2012, the transition to close the former Adamus corporate office was completed and by the end of the first quarter of 2013 the transition to close the Avion corporate office will be completed. The closure of these two corporate offices will result in a reduction of approximately $4.0 million of costs in 2013.

- Acquisition costs for the year ended December 31, 2012 were $5.8 million compared to $17.6 million for the prior year. Of the full year $5.8 million, $5.2 million relates to the Avion acquisition and $0.6 million relates to the Adamus merger at the end of 2011.

- Losses on financial instruments for the year ended December 31, 2012 were $7.8 million compared to a loss of $2.5 million for the prior year. The loss was due to a net loss of $10.5 million (December 31, 2011 – $2.5 million gain) on the realized and change in unrealized loss on the Nzema and Tabakoto gold hedges due to the increase in the gold price and therefore a larger realized and unrealized loss on the gold hedge liability, and a $9.6 million net loss on marketable securities (December 31, 2011 - $14.1 million loss) comprised of a $7.0 million realized loss from the write-down of marketable securities and $2.6 million of unrealized losses. Offsetting these losses was a $9.7 million (December 31, 2011 – $8.7 million) unrealized gain on the fair value of the share purchase warrants due to a decrease in the Corporation's share price and the lapsing of time, $2.0 million of implied interest on the promissory note and other assets (December 31, 2011 – $nil) and $0.3 million of interest income (December 31, 2011 – $0.4 million).

- Endeavour Capital incurred a one-time expense of $1.5 million for a final settlement agreement with Gold Reserve Inc.

- Share of loss of investment in associate for the year ended December 31, 2012 was $1.5 million compared to a loss of $3.3 million in the prior year. The loss for the year ended December 31, 2012 pertains to Endeavour recording its non-cash share of the cost of in Namibia Rare Earths Inc., ("NREI") further exploration of potential mineral property with no associated revenue. All of the NREI shares are free trading.

- The write-down of investment in associate of $3.6 million (December 31, 2011 – $9.8 million) relates to Endeavour's investment in NREI as the shares have been trading in a range well below its carrying value. The fair value of $6.6 million is based on the publicly quoted share price at December 31, 2012.

YEARLY FINANCIAL AND OPERATING RESULTS (CONTINUED)

Year ended December 31, 2012 compared to the year ended December 31, 2011 (continued)

- Finance costs for the year ended December 31, 2012 were $5.3 million compared to $2.8 million for the prior year. The finance costs primarily relate to the commitment fees on the undrawn portion and interest on the drawn portion of the $200 million Corporate Facility.

- The current income tax expense for the year ended December 31, 2012 was $13.0 million compared to $0.6 million for the prior year. The increase in current income tax expense is a result Youga being fully taxable, as all tax loss carryforwards were applied in 2011 coupled with fact the Corporation did not recognize any loss carryforwards in the preliminary purchase price allocation of Avion. As a result $3.0 million has been recorded for corporate income tax expense pertaining to Tabakoto, of which $1.2 million may be recovered from loss carryforwards in the future.

- Deferred income taxes for the year December 31, 2012 was $30.4 million compared to $7.6 million for the prior year. The increase in deferred income taxes is non-cash in nature and is primarily from a first quarter 2012 one-time $29.7 million deferred tax expense from the tax rate change in Ghana from 25% to 35%, and the deferred income tax incurred on the Avion acquisition. The expense was offset from losses arising from a realized hedge loss. Deferred tax assets due to 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 have given rise to the deferred income tax recovery, primarily from the merger and acquisition of Adamus and Etruscan.

- Net loss attributable to shareholders of Endeavour for the year ended December 31, 2012 was $15.5 million, or ($0.06) per share, compared with a net loss of $23.8 million, or ($0.20) per share, for the year ended December 31, 2011. Adjusted net earnings of $35.8 million or $0.13 per share for the full year 2012. See Non-GAAP Measures section which provides a reconciliation of net earnings to adjusted net earnings.

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,[1] 2012	September 30, 2012	June 30,[2] 2012	March 31,[2] 2012
Gold revenues	$ 110,370	$ 79,165	$ 83,919	$ 72,643
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	63,267	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 and gold bullion	151,136	122,648	136,110	110,831
Total assets	1,755,813	1,018,879	999,862	994,320

[1] Results include the operations of the Tabaoko Gold Mine for the period October 18, 2011 to December 31, 2012.
[2] 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.

(US dollars in thousands except per share amounts)	December 31,[3] 2011	September 30, 2011	June 30, 2011	March 31, 2011
Gold revenues	$ 47,151	$ 37,960	$ 36,000	$ 26,116
Gold ounces produced	26,631	24,047	21,575	20,056
Gold ounces sold	30,440	22,845	24,697	19,394
Cash flows from mine operations	25,320	15,300	13,309	6,555
Net earnings (loss) attributable to shareholders of Endeavour Mining Corporation	(66,124)	9,625	32,859	(136)
Basic earnings (loss) per share	(0.48)	0.08	0.29	-
Diluted earnings (loss) per share	(0.48)	0.08	0.28	-
Cash and cash equivalents and gold bullion	115,279	181,297	174,150	168,462
Total assets	978,436	473,422	468,556	453,475

[3] Results include the operations of the Nzema Gold Mine for the period December 6 to December 31, 2011.

Three months ended December 31, 2012 compared to the three months ended December 31, 2011

- Revenue for the fourth quarter of 2012 increased $63.2 million to $110.4 million from $47.2 million in the same period in 2011. The increase was a result of higher gold sales compared to the prior year due to a full quarter of inclusion of operations from Nzema and the acquisition of Tabakoto during the fourth quarter of 2012. Gold ounces sold increased from 30,440 in 2011 to 68,721 ounces for the fourth quarter of 2012. The benefit of increased sales volume was coupled with the increase in the realized

QUARTERLY FINANCIAL AND OPERATING RESULTS (CONTINUED)

Three months ended December 31, 2012 compared to the three months ended December 31, 2011 (continued)

price of gold. The realized price of gold per ounce for the fourth quarter of 2012 was $1,606 compared to $1,549 per ounce in the same period in 2011.

- Operating expenses for the fourth quarter December 31, 2012 increased by $72.5 million to $177.6 million due to a full quarter of inclusion of operations from Nzema and the acquisition of Tabakoto during the fourth quarter of 2012. In addition, during the fourth quarter of 2012 the Corporation settled $2.6 million of historical payables together with exchange rate adjustments and interest due as a result of the successful final arbitration decision relating to Burkina Faso Mines Services S.A., and paid $0.7 million relating to the arbitration with GBM Projects Limited.

- Depreciation and depletion for the fourth quarter ended December 31, 2012 was $22.7 million compared to $7.2 million for the same prior year period 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 the year ended December 31, 2012 and full quarter inclusion of Nzema.

- Earnings from mine operations for the fourth quarter ended December 31, 2012 was $15.2 million compared to $18.0 million for the same prior year period. The increase was a result of higher gold sales compared to the prior year due to a full quarter of operations from Nzema and the acquisition of Tabakoto during the fourth quarter of 2012.

- Corporate costs for the fourth quarter ended December 31, 2012 were $9.2 million compared to $7.6 million for the same prior year period. The increase relates to the inclusion of costs of Avion since the October 18, 2012 acquisition. By the end of the first quarter of 2013 the transition to close the Avion corporate office will be completed.

- Acquisition costs for the fourth quarter ended December 31, 2012 were $2.0 million compared to $17.6 million for the prior year. Of the full year $5.8 million, $5.2 million relates to the Avion acquisition and $0.6 million relates to the Adamus merger in late 2011.

- Gains on financial instruments for the fourth quarter ended December 31, 2012 were $13.5 million compared to a gain of $3.2 million for the same prior year period. The gain is due a $9.2 million gain (December 31, 2011– $9.6 million gain) on the realized and change in unrealized loss on the gold hedge due to the decrease in the gold price and therefore a lower realized and unrealized loss on the gold hedge liability, and a $3.7 million (December 31, 2011 – $7.9 million loss) unrealized gain on the fair value of the share purchase warrants due to the decrease in the Corporation's share price. The Corporation also recognized $2.0 million of imputed interest income on the promissory note and related accretion toward par value of $20.0 million.

- Share of loss of investment in associate for the fourth quarter ended December 31, 2012 decreased $0.2 million compared to a loss of $1.0 million for the same prior year period. The losses pertain to Endeavour recording its non-cash share of the cost of in NREI's further exploration of potential mineral property with no associated revenue.

- The write-down of investment in associate of $3.6 million (December 31, 2011 – $9.8 million) relates to Endeavour's investment in NREI as the shares have been trading in a range well below its carrying value. The fair value of $6.6 million is based on the publicly quoted share price at December 31, 2012.

QUARTERLY FINANCIAL AND OPERATING RESULTS (CONTINUED)

Three months ended December 31, 2012 compared to the three months ended December 31, 2011 (continued)

- Finance costs for the fourth quarter ended December 31, 2012 were $1.7 million compared to $0.7 million for the same prior year period. The finance costs relate primarily to the commitment fees on the undrawn portion and interest on the drawn portion of the $200.0 million Corporate Facility.

- The current income tax expense for the fourth quarter ended December 31, 2012 was $5.9 million compared to $0.01 million for the same prior year period. The increase in current income tax expense is a result Youga being fully taxable, as all tax loss carryforwards were applied in 2011 coupled with fact the Corporation did not recognize any loss carryforwards in the preliminary purchase price allocation of Avion. As a result $3.0 million has been recorded for corporate income tax expense pertaining to Tabakoto, of which $1.2 million may be recovered from loss carryforwards in the future.

- Deferred income taxes expense for the fourth quarter ended December 31, 2012 was $23.9 million compared to $9.5 million for the same prior year period. The decrease in the deferred income tax recovery is non-cash in nature and is primarily related to the deferred tax assumed from Avion and the settlement of the Nzema gold hedge. Deferred tax assets due to 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 have given rise to the deferred income tax recovery, primarily from the merger and acquisition of Adamus and Etruscan.

- Net loss attributable to shareholders of Endeavour for the fourth quarter ended December 31, 2012 was $23.1 million, or ($0.01) per share, compared to a net loss of $66.1 million, or ($0.48) per share for the same prior year period.

STATEMENT OF FINANCIAL POSITION REVIEW

Assets

Cash

As at December 31, 2012, Endeavour had cash and cash equivalents of $151.1 million, (December 31, 2011 – $115.3 million)

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 US$3.3 million in cash collateral to CAL plus US$1.2 million by way of security to the EPA. The Bank Guarantee with CAL shall remain in effect for an initial period of twelve months and may be renewed thereafter.

Gold bullion

The Corporation has accumulated a holding of 27,000 ounces of gold bullion with a fair value of $45.2 million (cost of $46.2 million) at December 31, 2012, in order to offset long-term hedging and to maintain financial flexibility. Investments in gold bullion are measured at the lower of average cost and net realizable value.

Marketable Securities

The fair value of marketable securities has decreased from $17.2 million as at December 31, 2011 to $7.8 million as at December 31, 2012 due to write-downs of historical bridge loans and a decrease in current valuations of marketable securities held, in line with the overall market performance for junior resource company share prices during the year ended December 31, 2012.

Trade and other receivables

Trade and other receivables have increased $11.3 million to $26.5 million as at December 31, 2012, largely due to the inclusion of Tabakoto and consist primarily of VAT receivable at all three mines.

Inventories

Inventories have increased $41.7 million from $40.5 million as at December 31, 2011 to $82.2 million as at December 31, 2012. The increase is attributable to the inventory acquired from Tabakoto, primarily the amount of spare parts and supplies, which was fair valued at the time of the Avion acquisition. Endeavour is working on improving working capital efficiencies through joint purchasing and sharing parts and supplies at all of its mines.

Prepaid expenses and other

Prepaid expenses and other increased from $10.0 million as at December 31, 2011 to $21.2 million as at December 31, 2012 primarily due to prepaying suppliers for reagents, specifically for cyanide and the additional amounts obtained from the Avion acquisition.

STATEMENT OF FINANCIAL POSITION REVIEW (CONTINUED)

Goodwill

Goodwill as at December 31, 2012 totaled $53.3 million, unchanged from $53.3 million at December 31, 2011. Goodwill is comprised of the following;

- $51.2 million from the acquisition of Adamus
- $2.1 million from the acquisition of Etruscan

Goodwill has 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.

Long-term receivable

The long-term receivable of $4.7 million refers to the fuel duty that is recoverable from the Government of Mali.

Investment in associates

The investment in the associate pertains to the Corporation's 38.5% interest in NREI. The investment decreased in 2011 as Endeavour wrote-down the value of its investment in NREI as the shares had been trading in a range well below their carrying value. Furthermore, NREI continues to explore potential mineral properties in Namibia with no associated revenue. The fair value of $6.6 million is based on the publicly quoted share price at December 31. As of October 15, 2012 all of the NREI shares are free trading.

Promissory note and other assets

The promissory note and other assets of $13.1 million as at December 31, 2012 (December 31, 2011 - $10.1 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 Endeavour Financial brand name and the $7.5 million service fee related to future earnings. 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 third quarter of 2012, the Corporation received a distribution of $0.2 million. The Corporation also recognized $2.0 million of imputed interest income on the promissory note and accretion toward par value of $20.0 million. It also recognized an unrealized gain on the fair value of the promissory note of $0.1 million.

Trade and other payables

Trade and other payables have increased from $38.6 million as at December 31, 2012 to $105.7 million as at December 31, 2012, due to the inclusion of Avion (including a $15.7 million provision for potential future taxes), increased activity at Agbaou and Houndé and significant activity related to the completion of the mill expansion at Tabakoto.

STATEMENT OF FINANCIAL POSITION REVIEW (CONTINUED)

Credit facilities

On November 28, 2011 the Corporation and UniCredit 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 from Nzema for the period 2012 to 2016 (the "Hedging Contracts"). The Corporate Facility is for general corporate purposes, including working capital, capital expenditure and any acquisition of an asset or assets that are engaged in the exploitation of precious metals ores.

The Corporate Facility matures four years from the closing date with a mandatory reduction in availability of $75.0 million on December 31, 2014 and is subject to an interest rate of LIBOR plus a variable margin of between 2.5% and 4.25%. The Corporate Facility is secured by shares of Endeavour's material gold mining subsidiaries and the material assets of those subsidiaries.

On December 5, 2011 Endeavour drew down the first $100.0 million of the Corporate Facility to fully repay the $57.0 million Nzema project loan and for general working capital purposes.

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, repay Avion's credit facility and financing arrangement with Banque Atlantique Mali S.A. and maintain a high level of cash liquidity.

The Corporation is in compliance with its covenants at December 31, 2012.

Derivative financial liabilities

As at December 31 2012, derivative financial liabilities of $78.0 million (December 31, 2011 - $75.1 million) were comprised of the fair value of the outstanding gold price protection program and the share purchase warrants.

In December 2012, the Corporation reduced its gold hedge program by closing out the 2013 gold hedge positions at Tabakoto (12,132 ounces: 6,066 ounces at $700 per ounce and 6,066 ounces at $900 per ounce) and Nzema (10,000 ounces at $1,061.75 per ounce) for a total cash settlement of $17.3 million. The close out of the 2013 hedge deliveries means that all of Endeavour's 2013 gold production will be sold into the spot market.

During the fourth quarter of 2012 the Corporation delivered 2,366 ounces of gold into the Nzema gold price protection program (96,193 ounces remain at December 31, 2012), resulting in a realized loss of $1.4 million. During the same period in 2011, the Corporation delivered 8,934 ounces into the Youga gold price protection program, resulting in a realized loss of $9.4 million.

The Corporation's subsidiary, Adamus Resources Limited, implemented a gold price protection program as part of the initial financing of the Nzema Gold Mine. The gold price protection program consisted of gold forward contracts initially covering 290,000 ounces at a strike price of $1,075.00 per ounce and subsequently amended to $1,061.75. The program required no cash or other margin.

On November 28, 2011 Endeavour reduced the hedge book by 139,000 ounces for a cash settlement of $96.7 million. The remaining Nzema gold hedge book of 116,161 ounces had a flat forward price of $1,061.75 and has been re-profiled with deliveries of approximately 10,000 ounces during each of 2012 and 2013, and 32,000 ounces during each of 2014, 2015, and 2016. The fair value of the Nzema Gold Mine price protection program was $52.5 million at December 31, 2011.

STATEMENT OF FINANCIAL POSITION REVIEW (CONTINUED)

Derivative financial liabilities *(continued)*

On November 29, 2011 the Corporation closed out the gold hedge book at its Youga Gold Mine in Burkina Faso. The residual balance of 23,532 ounces was settled for a cash payment of $24.0 million.

All gold production from Youga is available to be sold into the spot market.

The traded share purchase warrants are valued by taking the publicly traded market price and the non-traded share purchase warrants are fair valued using the Black-Scholes methodology. At December 31, 2012 the derivative liability pertaining to the share purchase warrants was $12.8 million (December 31, 2011 - $22.5 million).

Provisions

Provisions refer to the reclamation and closure cost obligations that are asset retirement obligations from 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 inputs used to determine the present value of such provisions and the related accretion expense using the 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 asset retirement obligations consist of reclamation and closure costs for Nzema, Tabakoto and Youga.

Current and deferred income taxes

The current income tax liability increased by $12.1 million during 2012 from a $0.1 million tax recovery at December 31, 2011 to $12.0 million as at December 31, 2012. The increase in current income tax expense is a result of Youga being fully taxable, as all tax loss carryforwards were applied in 2011 coupled with fact the Corporation did not recognize any loss carryforwards in the preliminary purchase price allocation of Avion. As a result $4.0 million has been recorded for corporate income tax expense pertaining to Tabakoto, of which $1.2 million may be recovered from loss carryforwards in the future.

The net deferred income tax liability increased by $117.3 million from $71.0 million at December 31, 2011 to $188.3 million at December 31, 2012. The increase in the net deferred income tax liability is non-cash in nature and is from a one-time $23.1 million deferred tax liability from the tax rate change in Ghana from 25% to 35%, coupled with the deferred income tax liability from the fair value of the mining interests acquired from Avion. The increase in the liability was offset from a deferred tax asset arising from a realized hedge loss. The liability was offset by the recognition of deferred tax assets due to 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, primarily from the merger and acquisition of Adamus and Etruscan.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2012, Endeavour had cash and cash equivalents of $151.1 million, (December 31, 2011 – $115.3 million).

In addition, as at December 31, 2012, Endeavour held 27,000 ounces of gold bullion with a fair value of $45.2 million and $7.8 million of marketable securities (December 31, 2011 - nil and marketable securities of $17.2 million, respectively). Working capital as at December 31, 2012 was $177.4 million (December 31, 2011 - $154.3 million).

The change in cash during the year ended December 31, 2012 is primarily attributable to the following key items:

- Operating cash margin of $179.2 million from the three operating mines;
- Investment of $132.3 million in capital projects and exploration;
- Purchase of 27,000 ounces of gold bullion at cost of $46.2 million (fair value of $45.2 million);
- Reduction of the gold hedge program by closing out the 2013 gold hedge positions at Tabakoto and Nzema for a total cash settlement of $17.3 million;
- Full repayment of the $27.9 million credit facility with Bank Atlantique Mali, which had been used by Avion to advance the Tabakoto mill expansion in 2011 and 2012; and
- Draw down of the remaining $100 million of the Corporate Facility to fund the gold bullion position, buy back the 2013 hedges, repay the Bank Atlantique Mali credit facility and maintain a high level of cash liquidity.

During the year ended December 31, 2012, the Corporation invested $132.3 million from its operating cash margin into its operations and exploration programs. Of this, a net $121.7 million was capitalized and $10.6 million was expensed as exploration. These investments in operational improvements and growth include:

o Tabakoto development	$14.8 million
o Sustaining capital at Nzema:	$11.6 million
o Sustaining capital at Youga:	$ 4.1 million
o Development capital at Nzema:	$16.6 million
o Nzema & Youga "near-mine" exploration:	$16.1 million
o Nzema sulphides project:	$ 6.4 million
o Agbaou project	$40.4 million
o Houndé project	$ 4.2 million
o Ouaré project	$ 3.3 million
o Regional exploration:	$13.8 million
o Corporate	$ 1.0 million

As at December 31 2012, the Corporation had a working capital position of $177.4 million. In the opinion of management, the working capital at December 31, 2012, together with cash flows from operations, are sufficient to support the Corporation's normal operating requirements on an ongoing basis.

CONTRACTUAL OBLIGATIONS AND COMMITTMENTS

Derivative instrument liability

The following table details the options contracts pertaining to the derivative instrument liability relating to the gold price protection programs for the Tabakoto and Nzema Gold Mines. During December 2012, the Corporation reduced its gold hedge program by closing out the 2013 gold hedge positions at Tabakoto (12,132 ounces; 6,066 at $900 per ounce and 6,066 at $700 per ounce) and Nzema (10,000 ounces at $1,061.75 per ounce) for a total cash settlement of $17.3 million. The close out of the 2013 hedge deliveries means that all of Endeavour's 2013 gold production will be sold into spot market.

Nzema hedging includes:

(US dollars in thousands except price per ounce) Period	Forward contracts (ounces)	Price Per Ounce	Fair Value
2014	32,000	$ 1,061.75	$ 18,134
2015	32,000	1,061.75	17,375
2016	32,163	1,061.75	16,797
Total	96,163	$ 1,061.75	$ 52,306

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	$ 8,654
2015	6,066	900.00	4,181
Total	18,198	$ 900.00	$ 12,835

Contracts and Leases

The Corporation has commitments in place at all of its three mines and its Agbaou Project that is currently under construction for drill and blasting services, load and haul services and supply of explosives and supply of hydrocarbon services. The terms extend through the period January 1, 2013 to February 2016 and require the contractors to drill and blast a minimum agreed amount of BCM.

Effective July 1, 2012, Nzema formally agreed on terms for a two year contract to purchase on average 4,000 tonnes of material per month (less than 2% of overall throughput at Nzema) at a minimum grade of 6 g/t. Ore purchase cost is 58.5%, of the recoverable gold at spot gold prices, the incremental processing costs are negligible and the ore supplier pays 50% of the 5% royalty on recovered ounces. At a gold price of $1,600 per ounce, purchased ore milling is expected to add approximately $5 million to operating cash flow on an annualized basis.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS (CONTINUED)

Contracts and Leases (continued)

Endeavour selected its ECPM contractor for the Agbaou Gold Mine processing plant and certain other facilities in June 2012 and signed the contract in March 2013. The Corporation has commitments with the EPCM contractor and other service providers for the Agbaou project from 2012 through to the final completion of the project.

The Corporation is subject to operating lease commitments in connection with the purchase of light duty vehicles and rented office premises from several suppliers totaling $0.9 million. The operating lease commitments extend from the period January 2013 to April 2017.

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
Finance lease obligations	$1,569	$1,286	$ -	$ -	$2,855
Minimium operating lease payments	1,239	1,000	710	-	2,949
Catering & facilities management	2,502	1,827	-	-	4,329
Engineering and construction	43,127	2,878	1,920	-	47,925
Drill, blasting, load & haul contracts	56,774	20,585	300	-	77,659
	$ 105,211	$ 27,576	$ 2,930	$ -	$ 135,717

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 significant parts of its advisory business, and a CDN$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 2012, Endeavour was an established gold producer with three operating mines producing gold at a rate of 300,000 ounces per year, a fourth mine under construction, and a pipeline of attractive gold projects in West Africa.

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 crystalized and becomes payable upon the sale of a material gold asset, the realization of increased value on completion 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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS (CONTINUED)

Long-term compensation award – Gold strategy (continued)

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 is 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 December 31, 2012 was equivalent to approximately CDN$952 million (or CDN$2.32 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 lanuch (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	CDN $1.77
B) Issued to acquire Etruscan Resources	15,401,909	CDN $2.72
C) Issued to aquire Adamus Resources Pty	129,340,958	CDN $2.48
D) Issued to acquire Avion Gold Corporation	162,055,600	CDN $2.50
E) Issued to complete Axmin property purchase (Avion acquisition)	328,500	CDN $2.40
	404,848,794	
Shares issued on exercise of options/warrants	5,873,950	CDN $1.73
Total issued shares as at December 31, 2012	410,722,744	CDN $2.32
Total cost base of current issued shares	CDN $952 Million	

*Cost of 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.

CONTINGENCIES

Burkina Faso Mines Services S.A.

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. BFMS also requested the arbitrator to grant injunctive relief to prevent the Corporation and Burkina Mining Company (the "BMC") from claiming under a performance guarantee provided by BFMS' parent company, EPC Groupe.

On January 17, 2013 the arbitrator rendered a decision which dismissed BFMS's claim against BMC but also rejected BMC's counterclaim against BFMS. Although the Corporation successfully defended the claim, the arbitrator found that the Corporation must settle its historical payables with BFMS; these had been deferred pending the outcome of the arbitration. Total historical payables together with interest due amounted to $3.9 million. The Corporation has accrued for these costs in the financial statements.

Hightime Investments Pty Ltd

The Corporation was subject to a claim from Hightime Investments Pty Ltd. ("Hightime") which alleged that the Corporation entered into an arrangement with Hightime under which Hightime asserted that it allowed the Corporation to apply for, and obtain, a prospecting license over ground near the Southern Ashanti geological belt in Ghana in exchange for the Corporation paying Hightime the fair market value of the ground after the Corporation had completed its feasibility study. The claim was heard by the Supreme Court of Western Australia in April and June 2012. The court rendered its judgment on August 21, 2012, and ordered that Hightime's action be dismissed with Hightime to pay Endeavour's costs in connection with the action. On September 10, 2012, Hightime lodged an appeal against the decision of the Supreme Court of Western Australia. The appeal was discontinued on October 10, 2012 in conjunction with a settlement agreed to in the Corporation's favour which was executed on March 26, 2013.

Gold Reserve Inc.

On September 20, 2012 the Corporation reached a settlement agreement with Gold Reserve Inc., whereby, in exchange for a full and final settlement of all the claims between the parties and without any admission as to liability, Endeavour paid CAD $1.5 million to Gold Reserve.

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 as of March 26, 2013**.**

Shares issued and outstanding	412,489,778
Stock options	31,323,022
Warrants	33,031,891

NON-GAAP MEASURES

Cash margin

The Corporation reports cash margin as revenues less royalties less cash cost

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 ended and year ended December 31, 2012:

	Three Months Ended December 31,		Year Ended December 31,	
	2012[2]	2011[3]	2012[2]	2011[3]
(US dollars in thousands except ounces)				
Revenues	$ 117,162	$ 49,286	$ 365,318	$ 158,403
Less: royalties	(6,792)	(2,135)	(19,221)	(11,176)
Less: cash cost per ounce sold (excluding royalties)[1]	(67,441)	(18,529)	(166,906)	(61,313)
Total cash margin	42,929	28,622	179,191	85,914

[1]Total cash cost is a non-GAAP financial performance measure with no standard meaning under IFRS. Refer to Non-GAAP Measures on page 41.
[2] Only the results for the Tabakoto Gold Mine from October 18, 2012 to December 31, 2012 are included in the operating results of Endeavour because the Avion Acquisition was completed on October 17, 2012.
[3] Only the Nzema Gold Mine operating results from December 6, 2011 to December 31, 2011 are included in the operating results.

Total cash costs

The Corporation reports total cash cost 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.

NON-GAAP MEASURES (CONTINUED)

Total cash costs (continued)

The following table provides a reconciliation of total cash cost 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 ended and year ended December 31, 2012:

	Three Months Ended December 31,		Year Ended December 31,	
	2012[2]	2011[3]	2012[2]	2011[3]
(US dollars in thousands except ounces)				
Operating expenses from continuing mining operations	$ 72,480	$ 21,898	$ 177,125	$ 66,205
Less: non-cash adjustments relating to purchase price adjustments included in operating expenses	(1,726)	(3,369)	(2,193)	(4,892)
Less: One-off Ghanaian tax audit assessment[4]	-	-	(4,713)	-
Less: One-off Arbritration settlement[5]	(3,313)	-	(3,313)	-
Total cash cost (excluding royalties)	67,441	18,529	166,906	61,313
Divided by ounces of gold sold	68,721	30,440	218,887	97,377
Total cash cost per ounce of gold sold[1] (excluding royalties)	$ 981	$ 609	$ 763	$ 630

[1] Total cash cost is a non-GAAP financial performance measure with no standard meaning under IFRS.
[2] Only the results for the Tabakoto Gold Mine from October 18, 2012 to December 31, 2012 are included in the operating results of Endeavour because the Avion Acquisition was completed on October 18, 2012.
[3] Only the Nzema Gold Mine operating results from December 6, 2011 to December 31, 2011 are included in the operating results of Endeavour because the Adamus merger was completed on December 6, 2011.
[4] The one-off Ghanaian tax audit assessment of $4.7 million relates primarily to withholding taxes for the pre-commercial production period, arising from the Ghanaian Tax Authority audit of its taxation years September 2007 to September 2011.
[5] The one-off legal case settlements paid during the year.

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:

- One-off Ghanaian tax audit assessment
- One-off corporate costs
- Gold Reserve settlement
- Acquisition costs
- Change in unrealized loss/(gain) – gold price protection program
- Change in unrealized loss/(gain) – CDN share purchase warrants
- 2013 gold hedge settlements in 2012 (Nzema forward contracts and Avion call options)
- Loss/(gain) on disposal of mining interests
- Loss on marketable securities
- Write-down of investment in associate
- Deferred income tax expense

NON-GAAP MEASURES (CONTINUED)

Adjusted net earnings and Adjusted net earnings per share (continued)

Net earnings have been adjusted for items considered exceptional, one-off 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.

Adjusted Net Earnings

(US dollars in millions except per share and share amounts)	**December 31, 2012**
Net loss attributable to shareholders of Endeavour Mining Corporation	(15.5)
One-time Ghanaian tax audit assessment	4.7
One-off corporate costs	3.3
Gold Reserve settlement	1.5
Acquisition costs	5.8
Change in unrealized loss / (gain) - gold price protection program	(15.6)
Change in fair value of CDN currency share purchase warrants	(9.7)
2013 gold hedge settlements (Nzema & Tabakoto)	17.3
Loss/(Gain) on disposal of mining intersts	0.3
Loss on marketable securities	9.6
Write-down of investment in associate	3.6
Deferred income tax expense	30.4
Adjusted net earnings after tax	**35.8**
Weighted average number of outstanding shares	282,821,053
Adjusted net earnings per share (basic)	**0.13**

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The critical judgements 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.

(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 judgements to determine the primary economic environment and the Company reconsiders the 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 Company 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 (1) the fact that they are economically equivalent to the common shares and (2) 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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(e) *Exchangeable shares* (continued)

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) *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 Company 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 pre-tax 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.

(b) *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 results in a change to future depletion rates.

(c) *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

KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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

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 Company'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.

(d) *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 a 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.

(e) *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.

(f) *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

KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(f) *Deferred income taxes* (continued)

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.

(g) *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, 2012. 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 2012 year-end audited consolidated financial statements, Management's Discussion and Analysis and Annual Information Form filed on SEDAR at 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.

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, 2012 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.

FINANCIAL INSTRUMENTS AND RELATED RISKS (CONTINUED)

(i) *Credit risk (continued)*

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, 2012	December 31, 2011
Cash and cash equivalents	105,902	115,279
Cash - restricted	4,517	157
Marketable securities	7,766	17,227
Trade and other receivables	26,523	15,184
Promissory note and other assets	13,084	10,095
	$ 157,792	$ 157,942

(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, 2012:

	Within 1 year	2 to 3 years	4 to 5 years	Over 5 years	Total
Trade and other payables	$ 105,745	$ -	$ -	$ -	$ 105,745
Long-term debt	-	200,547	-	-	200,547
Purchased ore obligations	7,149	2,268	-	-	9,417
Drill,blasting, load & haul	56,774	20,585	300		77,659
Engineering and construction	43,127	2,878	1,920	-	47,925
Finance lease obligations	1,569	1,286	-	-	2,855
Minimium operating lease payments	1,239	1,000	710	-	2,949
Catering & facilities management	1,877	2,452	-	-	4,329
Environmental rehabilitation provison	109	227	2,080	33,263	35,679
	$ 217,589	$ 231,243	$ 5,010	$ 33,263	$ 487,105

In the opinion of management, the working capital at December 31, 2012, together with future cash flows from operations, is sufficient to support the Corporation's commitments.

(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

FINANCIAL INSTRUMENTS AND RELATED RISKS (CONTINUED)

(iii) ***Currency risk*** *(continued)*

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 accounts receivable 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, 2012		December 31, 2011
Canadian dollar	$	(1,896)	$	(7,185)
Euro		(40,253)		647
Other currencies		2,548		5,303
	$	(39,601)	$	(1,235)

The effect on earnings and other comprehensive earnings before tax as at December 31, 2012 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 $3.9 million (December 31, 2011 - $0.1 million) assuming that all other variables remained constant. This calculation is based on the Corporation's statement of financial position as at December 31, 2012.

(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

FINANCIAL INSTRUMENTS AND RELATED RISKS (CONTINUED)

(v) ***Price risk*** (continued)

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.

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 year ends 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 Endeavour Mining 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, 2012 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting. Management of Endeavour acting reasonably and carefully considered the scope of their evaluation of internal controls over financial reporting ("ICFR") taking into consideration guidance in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings when a business is acquired not more than 365 days before year end. Management concluded that it would be impractical to complete an evaluation of the design and operational effectiveness of the controls over the Avion business, other than the controls over the period-end financial close process, as of December 31, 2012. Accordingly management excluded from its assessment the internal controls over financial reporting

CONTROLS AND PROCEDURES (CONTINUED)

Internal controls and procedures (continued)

concerning the former Avion business, other than the controls over the period-end financial close process, from their evaluation of the design and operational effectiveness of ICFR as of December 31, 2012.

Additional information relating to the Corporation is available on the Corporation's web site at www.endeavourmining.com and in the Corporation's Annual Information Form for the year ended December 31, 2012 on SEDAR at www.sedar.com.

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, 2012, available on SEDAR at 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, 2012, dated April 2, 2013, and other continuous disclosure documents filed by Endeavour available at www.sedar.com, for further information on mineral reserves and resources, which is subject to the qualifications and notes set forth therein.

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

		December 31, 2012		December 31, 2011
ASSETS				
Current				
Cash and cash equivalents	$	105,902	$	115,279
Cash - restricted (Note 6)		4,517		157
Gold bullion (Note 7)		45,234		-
Marketable securities		7,766		17,227
Trade and other receivables		26,523		15,184
Income taxes receivable		-		78
Inventories (Note 8)		82,167		40,517
Prepaid expenses and other		21,226		10,005
Assets held for sale (Note 22)		3,587		-
		296,922		198,447
Mining interests (Note 9)		1,381,161		688,608
Long-term receivable (Note 10)		4,694		-
Goodwill (Note 11)		53,318		53,318
Investment in associate (Note 12)		6,634		11,747
Promissory note and other assets (Note 21)		13,084		10,095
	$	1,755,813	$	962,215
LIABILITIES				
Current				
Trade and other payables		105,745		38,637
Current portion of finance lease obligations (Note 13)		1,807		607
Current portion of derivative financial liabilities (Note 15)		-		4,899
Income taxes payable		12,004		-
		119,556		44,143
Finance lease obligations (Note 13)		1,286		238
Long-term debt (Note 14)		200,547		100,000
Derivative financial liabilities (Note 15)		77,975		70,166
Provisions (Note 16)		30,792		9,100
Deferred income taxes (Note 23 (b))		188,262		70,968
		618,418		294,615
EQUITY				
Share capital (Note 17 (a))		984,834		559,605
Equity reserve		38,677		27,346
Retained earnings		38,928		54,414
Equity attributable to shareholders of the Corporation		1,062,439		641,365
Non-controlling interests (Note 18)		74,956		26,235
Total equity		1,137,395		667,600
	$	1,755,813	$	962,215

COMMITMENTS & CONTINGENCIES (NOTE 29)

Approved by the Board: March 26, 2013

"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, except per share amounts)

		2012		2011
Revenues				
Gold revenue	$	346,097	$	147,227
Cost of sales				
Operating expenses		177,125		66,205
Depreciation and depletion		74,122		20,379
Earnings from mine operations		94,850		60,643
Corporate costs		22,147		17,535
Acquisition costs (Note 5)		5,805		17,554
Exploration		10,579		3,423
Gain on disposal of mining interests		(332)		-
Earnings from operations		56,651		22,131
Other (expenses) income				
Losses on financial instruments (Note 19)		(7,753)		(2,447)
Write-down of gold bullion (Note 7)		(946)		-
Endeavour Capital loss and write-down of associated goodwill & intangibles		(2,787)		(40,479)
Share of loss of associate, net of taxes (Note 12)		(1,549)		(3,322)
Write-down of investment in associate (Note 12)		(3,564)		(9,831)
Finance costs		(5,276)		(2,770)
Gain on sale of gold bullion		-		2,772
Gain on sale of diamond operations		-		3,675
Gain on change of ownership of associate (Note 12)		-		22,068
		(21,875)		(30,334)
Earnings (loss) from continuing operations before taxes		34,776		(8,203)
Current income taxes (Note 23)		(12,972)		(618)
Deferred income taxes (Note 23)		(30,360)		(7,610)
Net loss and total comprehensive loss from continuing operations	$	(8,556)		(16,431)
Discontinued operations				
Net loss and total comprehensive loss from discountinued operations (Note 21)		-		(3,637)
Net loss and total comprehensive loss		(8,556)		(20,068)

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

ENDEAVOUR MINING CORPORATION

Consolidated Statements of Comprehensive Earnings (Loss)
Years ended December 31,
(Expressed in Thousands of United States Dollars, except per share amounts)

		2012		2011
Attributable to:				
Shareholders of Endeavour Mining Corporation				
Net loss and total comprehensive loss from continuing operations		(15,486)		(20,140)
Net loss and total comprehensive loss from continuing operations		-		(3,637)
		(15,486)		(23,777)
Non-controlling interests (Note 18)				
Net loss and total comprehensive loss from continuing operations		6,930		3,709
		6,930		3,709
		(8,556)		(20,068)
Net loss per share (Note 17 (d))				
From continuing and discontinued operations				
Basic loss per share	$	(0.06)	$	(0.20)
Diluted loss per share	$	(0.06)	$	(0.20)
From continuing operations				
Basic loss per share	$	(0.06)	$	(0.17)
Diluted loss per share	$	(0.06)	$	(0.17)

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)

		2012		2011
Operating Activities				
Cash generated from (used in) operating activities (Note 24)	$	93,374	$	(8,548)
Investing Activities				
Cash acquired on acquisition (Note 5 (a) & (b))		7,625		23,397
Expenditures on mining interests (Note 9)		(121,674)		(20,125)
Proceeds from disposal of mining interests		566		-
Purchase of gold bullion (Note 7)		(46,180)		-
Purchases of marketable securities		(336)		(6,595)
Issuance of Avion exchangeable loan pre-acquisition (Note 5 (a))		(20,000)		-
Proceeds from sale of marketable securities		596		13,391
Working capital loan facility to former debt advisory busines (Note 21)		(1,000)		-
Proceeds from distribution of promissory note and other assets (Note 21)		177		-
Cash transferred to investment in associate		-		(2,399)
Funds advanced to Adamus pre-merger (Note 5 (b))		-		(152,472)
Proceeds from sale of diamond operations		-		(544)
Cash used in investing activities		(180,226)		(145,347)
Financing Activities				
Received from the issue of common shares		6,012		2,706
Proceeds from long-term debt (Note 14)		100,000		100,000
Repayment of long-term debt (Note 14)		(27,935)		-
Finance lease obligation		(946)		(48)
Cash generated from financing activities		77,131		102,658
Effect of exchange rate changes on cash and cash equivalents		344		(784)
Decrease in cash and cash equivalents		(9,377)		(52,021)
Cash and cash equivalents, beginning of year		115,279		167,300
Cash and cash equivalents, end of year	$	105,902	$	115,279
Cash and cash equivalents is comprised of:				
Cash at bank	$	60,919	$	100,042
Short-term money-market instruments		44,983		15,237
	$	105,902	$	115,279
Gold bullion (Note 7)		45,234		-
Cash and cash equivalents and gold bullion	$	151,136	$	115,279

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, except share amounts)

	Share Capital												
	Number of Shares	Par Value	Additional Paid in Capital	Number of Exchangeable Shares	Par Value	Additional Paid in Capital	Total Number of Shares	Total Share Capital	Equity Reserve Shares	Retained Earnings	Total Attributable to Shareholders	Non-Controlling Interests	Total
At January 1, 2011	113,482,507	$ 1,131	$ 238,884	-	$ -	$ -	113,482,507	$ 240,015	$ 22,879	$ 78,361	$ 341,255	$ 2,365	343,620
Shares issued pursuant to the acquisition of Adamus Resources Pty Limited (Note 5 (b))	129,340,958	1,293	313,347	-	-	-	129,340,958	314,640	-		314,640	22,636	337,276
Share options exercised	1,071,026	10	4,010	-	-	-	1,071,026	4,020	(1,921)	-	2,099	-	2,099
Warrants exercised	715,458	7	923	-	-	-	715,458	930	(323)	-	607	-	607
Share based payments	-	-	-	-	-	-	-	-	6,711	-	6,711	-	6,711
Change in ownership of Namibia Rare Earths Inc.	-	-	-	-	-	-	-	-	-	(170)	(170)	(2,475)	(2,645)
Net loss and total comprehensive loss	-	-	-	-	-	-	-	-	-	(23,777)	(23,777)	3,709	(20,068)
At December 31, 2011	244,609,949	$ 2,441	$ 557,164	-	-	$ -	244,609,949	$ 559,605	$ 27,346	$ 54,414	$ 641,365	$ 26,235	$ 667,600
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 (a))	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

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 growth focused West African gold production and exploration company. Endeavour has a global strategy, supported by financial resources and management's company building expertise, to grow into an intermediate gold producer.

Endeavour is a publicly listed company incorporated in the Cayman Islands. The Corporation's shares are listed on the Toronto Stock Exchange ("TSX"), under the symbol EDV and the Australian Stock Exchange, under the symbol EVR.

The Corporation's registered office is located at Regatta Office Park, Windward 3 Suite 240, West Bay Road, Grand Cayman, Cayman Islands.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(a) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments and certain other financial assets which are carried at fair value.

(b) Basis of presentation

These consolidated financial statements include the accounts of the Corporation and all the entities controlled by the Corporation (its subsidiaries) and its investment in associates.

Subsidiaries are entities over which the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from their activities. Control is presumed to exist when the Corporation owns more than one half of the voting rights (which does not always equate to percentage ownership) unless it can be demonstrated that ownership does not constitute control. Control does not exist where other parties hold veto rights over significant operating and financial decisions. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date whereby control ceases. Where necessary, adjustments are made to bring their accounting policies in line with those of the Corporation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Corporation's equity. Non-controlling interests consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest's share in changes in equity since the date of acquisition.

Investments in associates are those investments over which the Corporation exercises significant influence and which are neither subsidiaries nor interests in joint ventures.

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

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

(b) *Basis of presentation* (continued)

Significant influence is presumed to exist where the Corporation has between 20 percent and 50 percent of the voting rights, but can also arise where the Corporation holds less than 20 percent if it has the power to be actively involved and influential in policy decisions affecting the entity. Investments in associates are accounted for using the equity method of accounting except when classified as held for sale.

Under the equity method of accounting the investment is initially recorded at cost to the Corporation, which therefore includes any goodwill on acquisition representing the difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities, and then, in subsequent periods, adjusting the carrying amount of the investment to reflect the Corporation's share of the associate's net income less any impairment of the carrying value of the investment (including goodwill) and any other changes to the associate's net assets such as dividends.

All figures are in United States dollars ("US Dollars") unless otherwise noted.

The principal subsidiaries of the Corporation are as follows:

Entities	Principal activity	Place of incorporation and operation	Proportion of ownership intest and voting power held	
			December 31, 2012	December 31, 2011
Adamus Resources Limited	Gold Operations	Ghana	90%	90%
Adamus Resources Pty Limited	Holding	Australia	100%	100%
Agbaou Gold Operations S.A.	Gold Operations	Cote d' Ivoire	85%	85%
Avion Gold Corporation	Holding	Canada	100%	0%
Avion Gold (Burkina Faso) Sarl	Exploration	Burkina Faso	90%	0%
Avion Resources (Mali) Ltd	Holding	Barbados	100%	0%
Burkina Faso Exploration Ltd	Holding	Jersey	100%	0%
Burkina Mining Company S.A.	Gold Operations	Burkina Faso	90%	90%
Cayman Burkina Mines Ltd	Holding	Cayman	100%	100%
Endeavour Exploration Limited	Holding	Cayman	100%	100%
Endeavour Gold Corporation	Holding	Cayman	100%	100%
Endeavour International Management Services S.A.M.	Holding	Monaco	100%	100%
Endeavour Management Services (Canada) Ltd	Holding	Canada	100%	100%
Etruscan Resources Inc	Holding	Cayman	100%	100%
Etruscan Resources Cote I'voire Sarl	Exploration	Cote d' Ivoire	100%	100%
Nevsun Mali Exploration Limited	Exploration	Mali	100%	0%
Nkroful Mining Limited	Exploration	Ghana	100%	100%
Segala Mining Co SA	Gold Operations	Mali	80%	0%

Intragroup balances, transactions, revenue and expenses are eliminated in full.

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

(c) 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.

(d) Gold Bullion

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

(e) 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.

(f) Mining interests

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

Mining properties

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.

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

(f) *Mining interests* (continued)
Mining properties (continued)

(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.

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

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

(f) *Mining interests* (continued)
Recognition (continued)

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.

- 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.

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

(f) *Mining interests* (continued)
Recognition (continued)

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.

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.

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

(f) *Mining interests* (continued)
Recognition (continued)

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 produced divided by the estimated recoverable ounces contained in proven and probable reserves and a portion of resources.

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

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.

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.

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

(f) Mining interests (continued)

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.

(g) 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 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
(iv) 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

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

(g) Business combinations (continued)

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.

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.

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

(g) Business combinations (continued)

Goodwill acquired in a business combination is allocated to cash generating units ("CGUs") or groups of CGUs that are expected to benefit from synergies of the business combination. The CGU or group of CGUs 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.

(h) Intangible assets

Intangible assets refer to the debt advisory business that was disposed of in 2011 (refer to Note 21). The intangible assets were amortized on a straight-line basis over their estimated lives and tested for impairment when events or circumstances indicate the carrying amounts may not be recoverable. Customer relationships were amortized over 15 years. Customer contracts and other intangible assets had amortization periods of up to four years.

Amortization expense was included in net earnings from discontinued operations.

(i) 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 the carrying value of the assets are not recoverable. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. Where the asset does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the CGU to which the asset belongs. Goodwill, intangible assets with an indefinite useful life (Note 2(h)), 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.

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 CGU is estimated to be less than it carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Impairment is recognized immediately in profit or loss.

When an impairment subsequently reverses, the carrying amount of the asset or CGU 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 been recognized for the asset or CGU in prior years. A reversal of an impairment is recognized immediately in profit or loss.

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 CGUs that include goodwill and compares recoverable amounts to the CGU's carrying amount. If a CGU's carrying amount exceeds its recoverable amount, the Corporation

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

(i) Impairment

reduces the carrying value of the CGU or group of CGUs 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.

(j) 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.

(k) Income and mining 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. In a business combination, the liability method requires the tax effects of such differences to be recognized as deferred income tax assets and liabilities and included in the allocation of the cost of purchase. Deferred income taxes are not recognized for temporary differences that arise from differences between the fair values and tax bases of assets acquired in a transaction other than a business combination.

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.

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

(l) 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: available-for-sale ("AFS"), loans and receivables, fair value through profit or loss ("FVTPL"), or held-to maturity investments.

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.

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.

Investment transactions are accounted for on the day that a buy or sell order is executed. Dividend income, including stock dividends, is recorded on the ex-dividend date when the shareholder's right to receive payment has been established. Interest income is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably. It is recorded on the accrual basis by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Realized gains and losses and investment income are recorded on the accrual basis. Realized gains and losses on investment transactions and the unrealized appreciation or depreciation of investments are computed on an average cost basis. The unrealized appreciation or depreciation of investments represents the aggregate of the difference between their average cost and fair value at the reporting date.

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

(l) *Financial instruments* (continued)
Financial assets (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 (including the Corporation's trade and other receivables) are measured at amortized cost using the effective interest method, less any impairment losses.

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.

Equity instruments

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.

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or is designated FVTPL upon initial recognition and stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss.

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

(l) *Financial instruments* (continued)
Financial liabilities and equity instruments (continued)
Classification as debt or equity (continued)

Other financial liabilities (including long-term debt and trade and other payables) are subsequently measured at amortized cost using the effective interest method. The Corporation has designated its long-term debt as other financial liabilities.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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.

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.

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.

For financial assets measured at amortized 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 the impairment is reversed does not exceed what the amortized 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

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

(l) *Financial instruments* (continued)
Derivative financial instruments (continued

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, a separate instrument with the same terms as the embedded derivative would also meet the definition of a derivative.

(m) *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.

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 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.

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

(n) Foreign currency translation

The presentation and functional currency of the Corporation is the US dollar. The individual financial statements of each associate, joint venture 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 recorded at the spot exchange rate on the transaction date. Monetary items are translated at the closing rate at the end of each reporting period. Non-monetary items carried at fair value that are denominated in a foreign currency are translated 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 entities whose functional currency is not the US dollar are translated using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period.

(o) 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.

(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) 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

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

(q) Revenue recognition (continued)

entity; and the costs incurred or to be incurred in respect of the sale can be measured reliably. Revenue is net of royalties. Royalties are not considered to be an income tax.

(r) 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.

(s) 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 current US dollar real risk-free pre-tax discount rate. 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 each reporting period 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)

(s) 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.

(t) Newly adopted accounting standards

In October 2010, the International Accounting Standards Board ("IASB") issued amendments to IFRS 7 - *Financial Instruments: Disclosures* that enhance the disclosure requirements in relation to transferred financial assets. The amendments became effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Corporation adopted this amendment and it did not have a material impact on its consolidated financial statements.

In December 2010, the IASB issued an amendment to IAS 12 – *Income Taxes*. The amendment provides a practical solution to the problem of determining whether assets measured using the fair value model in IAS 40 *Investment Property* are recovered through use or through sale. The amendment became effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Corporation adopted this amendment and it did not have a material impact on its consolidated financial statements.

(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.

The following standards are effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

- *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.*

- *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.

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

(u) Accounting Standards issued but not yet effective (continued)

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.

- *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.

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 as at fair value through profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

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

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

(u) Accounting Standards issued but not yet effective (continued)

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 are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted.

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.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The critical judgements 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 (f)) 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.

(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 judgements to determine the primary economic environment and the Company reconsiders the

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(c) Functional currency (continued)

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 Company 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 (1) the fact that they are economically equivalent to the common shares and (2) 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) 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 Company considers include the manner in which mining properties and plant and equipment are being used or are expected to be used and

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(a) *Impairment of mining interests and goodwill* (continued)

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 pre-tax 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.

(b) *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 results in a change to future depletion rates.

(c) *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 Company'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)

(d) 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 a 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.

(e) 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.

(f) 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.

(g) Share-based payments

Note 17(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.

5. ACQUISITION AND MERGER OF MINING INTERESTS

(a) 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^2 in the western part of Mali. Avion also has the Kofi Project located in Mali, and the Hounde 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, 2012 19,366,979 Exchangeable shares remained outstanding.

For the year ended December 31, 2012 the Corporation incurred $5.2 million in transaction costs and acquisition related costs and fees, including costs and fees to update the revolving corporate loan facility security structure (Note 14 (a)). These costs are presented as acquisition costs within the consolidated statements of comprehensive earnings (loss).

The consideration and preliminary allocation of the fair value of assets acquired and liabilities assumed including the allocation of mining properties to depletable and non-depletable properties is as follows:

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

5. ACQUISITION AND MERGER OF MINING INTERESTS (continued)

(a) Acquisition of Avion Gold Corporation ("Avion")

Avion Acquisition

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

An income approach (being the net present value of expected future cash flows) was used 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 excess of acquisition cost over the net identifiable assets acquired represents goodwill.

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 Exchangeable Loan is for an initial term of six months, bears interest at the rate of 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

5. ACQUISITION AND MERGER OF MINING INTERESTS (continued)

(a) Acquisition of Avion Gold Corporation ("Avion")

Avion Acquisition

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.

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

5. ACQUISITION AND MERGER OF MINING INTERESTS (continued)

(b) **Merger with Adamus Resources Pty Limited (formerly Adamus Resources Limited) ("Adamus")**

Adamus Merger

Adamus was a single mine West African gold producer with its primary focus on expanding the economic potential of the Nzema Gold Mine in Ghana, West Africa. First gold production was achieved in January 2011 and commercial production was declared on April 1, 2011. The Nzema Gold Mine encompasses approximately 665km² of tenure in the Ashanti Gold Belt in Ghana. Adamus also holds three Mineral Reconnaissance Licenses in the Republic of Liberia, covering an area of 3,107km² making Adamus one of the largest exploration property holders in Liberia.

On December 5, 2011, Endeavour and Adamus combined in an all stock merger of equals whereby the Corporation acquired 100% of Adamus' common shares through a Scheme of Arrangement. Endeavour has accounted for the merger as a business combination under IFRS 3 using the acquisition method.

The consideration and final allocation of the fair value of assets acquired and liabilities assumed, including the allocation of property, plant and equipment to depletable and non-depletable properties is as follows:

Purchase price:		
Fair value of 129,340,958 shares issued as consideration	$	314,640
	$	314,640
Net assets acquired:		
Net working capital acquired, (including cash of $23.4 million)	$	37,335
Mining interests		533,048
Goodwill		51,254
Reclamation deposits		157
Fair value of gold contracts		(67,155)
Due to Endeavour Mining Corporation		(152,472)
Finance lease obligations		(893)
Provisions for reclamation		(6,716)
Deferred income and mining taxes		(57,282)
Non-controlling interest		(22,636)
	$	314,640

An income approach (being the net present value of expected future cash flows) was used 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 excess of acquisition cost over the net identifiable assets acquired represents goodwill.

During the year ended December 31, 2012 the Corporation determined that an adjustment was required to the balances allocated on acquisition to deferred income taxes, non-controlling interests and goodwill. This adjustment was corrected retrospectively with the effect that the balances of deferred income taxes, non-controlling interests and goodwill were decreased by $3.1 million, $1.1 million, and $4.2 million, respectively.

5. ACQUISITION AND MERGER OF MINING INTERESTS (continued)

(b) **Merger with Adamus Resources Pty Limited (formerly Adamus Resources Limited) ("Adamus")**

Adamus Merger

Due to Endeavour Mining Corporation of $152.5 million relates to funds advanced on December 2, 2011 (one business day before the effective date of the merger), after the final court approval of the scheme of arrangement, in order for Adamus to repay the $57.0 million Nzema project facility and settle 139,000 ounces of the Nzema gold hedge (Refer to Note 14 (a) & Note 15 (a)).

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

Goodwill arose on this acquisition principally because of the requirement to record a deferred tax liability for the difference between the assigned values and the tax bases of assets acquired and liabilities assumed at amounts that do not reflect fair value. The goodwill is not deductible for income tax purposes.

For the year ended December 31, 2012 and December 31, 2011 the Corporation incurred $0.6 million and $17.6 million, respectively, in merger related costs and fees, including restructuring costs, fees to arrange the revolving corporate credit facility and for novation of the remaining Nzema hedge book to UniCredit Bank AG ("UniCredit") from Macquarie Bank Limited ("Macquarie"). These costs are presented as acquisition costs within the consolidated statements of comprehensive earnings (loss).

(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. The Bank Guarantee with CAL shall remain in effect for an initial period of twelve months and may be renewed thereafter.

7. GOLD BULLION

		December 31, 2012	December 31, 2011
Ounces held		27,000	-
Weighted average acquisition cost	$	1,710	-
Acquisiton cost	$	46,180	-
Write-down of gold bullion	$	(946)	-
End of year market value	$	45,234	
End of year spot price for gold	$	1,675	-

8. INVENTORIES

The cost of inventories recognized as an expense for the year ended December 31, 2012 amounted to $145.0 million, which is included in operating expenses (December 31, 2011 - $57.5 million).

		December 31, 2012		December 31, 2011
Dore bars	$	4,151	$	803
Gold in circuit		10,514		8,276
Ore stockpiles		18,581		10,482
Spare parts and supplies		48,921		20,956
	$	82,167	$	40,517

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

9. MINING INTERESTS

	Mining Properties					
	Depletable	Non depletable	Assets under construction	Plant and equipment	Corporate assets	Total
Cost						
Balance as at December 31, 2010	$ 80,935	$ 17,152	$ -	$ 66,503	$ 2,032	$ 166,622
Acquisition of Adamus Resources Pty Limited (Note 5 (b))	286,950	167,416	-	78,224	458	533,048
Expenditures/additions	2,225	13,974	-	3,521	405	20,125
Disposals	(1,755)	(548)	-	(679)	(1,189)	(4,171)
Balance as at December 31, 2011	368,355	197,994	-	147,569	1,706	715,624
Acquisition of Avion Gold Corporation (Note 5 (a))	216,699	248,657	49,703	133,762	-	648,821
Expenditures/additions	40,459	56,714	7,164	16,308	1,029	121,674
Disposals	(884)	-	-	(439)	-	(1,323)
Assets held for sale (Note 22)	-	(3,587)		-	-	(3,587)
Balance as at December 31, 2012	$ 624,629	$ 499,778	$ 56,867	$ 297,200	$ 2,735	$ 1,481,209
Accumulated depreciation						
Balance as at December 31, 2010	$ 3,818	$ -	$ -	$ 4,949	$ 1,467	$ 10,234
Depreciation/depletion	10,324	-	-	9,844	211	20,379
Disposals	(465)	-	-	(2,139)	(993)	(3,597)
Balance as at December 31, 2011	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
Carrying amounts						
At December 31, 2011	$ 354,678	$ 197,994	$ -	$ 134,915	$ 1,021	$ 688,608
At December 31, 2012	$ 556,608	$ 499,778	$ 56,867	$ 266,470	$ 1,438	$ 1,381,161

The carrying value of plant and equipment under finance lease at December 31, 2012 was $1.0 million (December 31, 2011 - $1.3 million)

The Corporation capitalized interest of $0.15 million for the year ended December 31, 2012 (2011 - $nil).

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

9. MINING INTERESTS (continued)

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

	Tabakoto Mine	Nzema Mine	Youga Mine	Development Projects: Agbaou Project	Development Projects: Finkolo Project	Development Projects: Houndé Project	Development Projects: Kofi Project	Development Projects: Ouaré Project	Exploration Properties	Assets under construction	Corporate assets	Rare Earths	Total
Cost													
Balance as at December 31, 2010	$ -	$ -	$ 139,863	$ 11,387	$ 3,439	$ -	$ -	$ 3,876	$ -	$ -	$ 2,032	$ 6,025	$ 166,622
Acquisition of Adamus Resources Pty Limited (Note 5 (b))	-	529,460	-	-	-	-	-	-	3,130	-	458	-	533,048
Expenditures/additions	-	4,933	11,603	5,572	148	-	-	3,361	-	-	405	(5,897)	20,125
Disposals	-	(477)	(2,377)	-	-	-	-	-	-	-	(1,189)	(128)	(4,171)
Balance as at December 31, 2011	-	533,916	149,089	16,959	3,587	-	-	7,237	3,130	-	1,706	-	715,624
Acquisition of Avion Gold Corporation (Note 5 (a))	427,519	-	-	-	-	111,514	60,085	-	-	49,703	-	-	648,821
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 for sale (Note 22)	-	-	-	-	(3,587)	-	-	-	-	-	-	-	(3,587)
Balance as at December 31, 2012	$ 435,072	$ 580,715	$ 159,012	$ 57,377	$ -	$ 115,668	$ 60,085	$ 10,548	$ 3,130	$ 56,867	$ 2,735	$ -	$ 1,481,209
Accumulated depreciation													
Balance as at December 31, 2010	$ -	$ -	$ 8,767	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,467	$ -	$ 10,234
Depreciation/depletion	-	2,977	17,191	-	-	-	-	-	-	-	211	-	20,379
Disposals	-	-	(2,604)	-	-	-	-	-	-	-	(993)	-	(3,597)
Balance as at December 31, 2011	-	2,977	23,354	-	-	-	-	-	-	-	685	-	27,016
Depreciation/depletion	6,009	51,552	15,949	-	-	-	-	-	-	-	612	-	74,122
Disposals	-	(869)	(221)	-	-	-	-	-	-	-	-	-	(1,090)
Balance as at December 31, 2012	$ 6,009	$ 53,660	$ 39,082	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,297	$ -	$ 100,048
Carrying amounts													
At December 31, 2011	$ -	$ 530,939	$ 125,735	$ 16,959	$ 3,587	$ -	$ -	$ 7,237	$ 3,130	$ -	$ 1,021	$ -	$ 688,608
At December 31, 2012	$ 429,063	$ 527,055	$ 119,930	$ 57,377	$ -	$ 115,668	$ 60,085	$ 10,548	$ 3,130	$ 56,867	$ 1,438	$ -	$ 1,381,161

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

10. LONG-TERM RECEIVABLE

The long-term receivable pertains to fuel duty that is recoverable from the Government of Mali.

11. GOODWILL

		December 31, 2012		December 31, 2011
Balance, beginning of year		53,318		31,378
Gold Business - Adamus Resources Pty Limited acquisition (Note 5 (b))		-		51,254
Impairment losses recognized in profit or loss (Note 21)		-		(20,227)
Derecognized on disposal of business (Note 21)		-		(9,087)
Balance, end of year	$	53,318	$	53,318

Goodwill is assessed for impairment annually at the beginning of the fourth quarter, or when circumstances indicate there may be an impairment, and is allocated to CGUs on the basis of management's internal review. The recoverable amounts of CGUs with allocated goodwill as noted above have been determined by reference to the CGUs' future pre-tax cash flows expected to be derived from the Corporation's mining interests. The pre-tax cash flows have been determined based on life of mine pre-tax cash flow projections which incorporate management's best estimates of future gold prices, production based on current estimates of recoverable reserves and resources, exploration potential and future operating costs. Cash flow projections beyond five years are based on life of mine plans assuming management estimates of the long-term gold price. The projected cash flows are significantly affected by changes in assumptions about the gold selling price, future capital expenditures, production cost estimates, discount rates and exchange rates. The gold selling price is estimated based on historical price volatility and market consensus pricing. For the 2012 year end annual assessment, the gold price assumption ranged from $1,800 to $1,400 per ounce for gold. The cash flow projections are discounted using a pre-tax discount rate of 5% to 8%.

The Company has not recognized impairment losses on the goodwill balances as at December 31, 2012. The impairment losses on the goodwill in December 31, 2011 refers to the debt advisory business disposed of in 2011 (refer to Note 21).

12. INVESTMENT IN ASSOCIATE

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

			Proportion of ownership interest and voting	
Name of associate	Principal activity	Country of incorporation	December 31, 2012	December 31, 2011
Namibia Rare Earths Inc.	Mining	Canada	38.5%	38.5%

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

12. INVESTMENT IN ASSOCIATE (continued)

As at December 31, 2012 the fair value of the Corporation's interest in Namibia Rare Earths Inc., ("NREI") based on the publicly quoted share price was $6.6 million (December 31, 2011 - $11.7 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 year ended November 30, 2012 have been used and appropriate adjustments have been made for the effects of significant transactions between that date and December 31, 2012

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

	Namibia Rare Earths Inc.
December 31, 2010	$ -
Fair value on change of ownership	24,900
Share of loss of associate, net of taxes	(3,322)
Write-down of investment	(9,831)
December 31, 2011	11,747
Share of loss of associate, net of taxes	(1,549)
Write-down of investment	(3,564)
December 31, 2012	$ 6,634

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

	December 31, 2012	December 31, 2011
Total assets	$ 17,819	$ 25,143
Total liabilities	1,162	910
Net assets	$ 16,657	$ 24,233
Corporation's share of net assets of Namibia Rare Earths Inc.	$ 6,413	$ 9,330

On April 14, 2011, NREI completed its initial public offering which raised gross proceeds of C$25.0 million and subsequently on April 27, 2011 closed a C$3.8 million over-allotment option, reducing Endeavour's ownership from 71.6% to 38.5%. The change in ownership percentage resulted in the interest in NREI being accounted for as an investment in associate. The reduction in ownership resulted in the Corporation losing control and triggering recognition of a gain on the entire interest in NREI. A gain in the amount of $22.1 million was recognized in the statement of comprehensive earnings during 2011, 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.

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

13. 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.

As at December 31, 2012, the finance leases were composed of the following obligations:

	December 31, 2012	December 31, 2011
Equipment lease obligations	$ 3,093	$ 845
Less: current portion	(1,807)	(607)
Long-term equipment lease obligations	$ 1,286	$ 238

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Not later than one year	$ 2,003	$ 694	$ 1,807	$ 600
Later than one year and not later than five years	1,336	249	1,286	245
Later than five years	-	-	-	-
	3,339	943	3,093	845
Less future finance charges	(246)	(98)	-	-
Present value of minimum lease payments	$ 3,093	$ 845	$ 3,093	$ 845

14. LONG-TERM DEBT

	December 31, 2012	December 31, 2011
UniCredit - Corporate Facility (a)	$ 200,000	$ 100,000
Mali Government interest bearing loan (b)	547	-
Total debt	200,547	100,000
Less: current portion	-	-
	$ 200,547	$ 100,000

(a) On November 28, 2011 the Corporation and UniCredit 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"). The Corporate Facility is for general corporate purposes, including working capital, capital expenditure and any acquisition of an asset or assets that are engaged in the exploitation of precious metals ores. The Corporate Facility matures four years from the closing date with a mandatory reduction inavailability of $75.0 million on December 31, 2014 and is subject to an interest rate of LIBOR plus a variable margin of between 2.5% and 4.25%. The Corporate Facility is

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

14. LONG-TERM DEBT (continued)

secured by shares of Endeavour's material gold mining subsidiaries and the material assets of those subsidiaries

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 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 15(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.

The interest on Avion's credit facility and financing arrangement was capitalized to mining properties and plant and equipment under construction (Refer to Notes 9 and 13).

(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, 2012 is $0.5 million (CFA 271.0 million), including accrued interest. This loan bears an interest rate at the London Interbank Offered Rate ("LIBOR") for United States dollars plus 2%, and is calculated semi-annually. This loan will be paid with priority over shareholder dividends from the Malian subsidiaries.

15. DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the derivative financial liabilities as at December 31, 2012:

	December 31, 2012	December 31, 2011
Gold price protection programs	$ 65,141	$ 52,538
Share purchase warrants	12,834	22,527
Derivative liability	77,975	75,065
Less: current portion	-	(4,899)
Derivative financial liabilities	$ 77,975	$ 70,166

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

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table summarizes the (loss) gain on derivative financial liabilities that have been recognized through the consolidated statements of comprehensive earnings at December 31, 2012:

	Year ended December 31, 2012	Year ended December 31, 2011
Change in fair value of gold price protection programs (a)	$ (10,492)	$ 2,465
Change in fair value of share purchase warrants (b)	9,693	8,659
(Loss) gain on derivative financial liabilities (Note 19)	$ (799)	$ 11,124

The following table summarizes the (loss) gain on the gold price protection programs that have been recognized through the consolidated statements of comprehensive earnings at December 31, 2012:

	Year ended December 31, 2012	Year ended December 31, 2011
Realized loss - gold price protection programs	$ (26,069)	$ (52,752)
Change in unrealized loss - gold price protection programs	15,577	55,217
Total (loss) gain on gold price protection programs	$ (10,492)	$ 2,465

(a) Gold price protection programs

(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. The first four call options are priced at $700 per ounce and the eight remaining call options are priced at $900 per ounce.

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

During the period October 18, 2012 to December 31, 2012 call options (ounces) totaling 15,165 ounces, which includes the 2013 call options (ounces) of 12,132, were delivered resulting in a realized loss of $14.1 million. The realized loss from the delivery of the 2013 call options (ounces) was $10.9 million.

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

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) *Gold price protection programs* (continued)

The following table reflects the fair value of the call options as at December 31, 2012:

Period	Call options (ounces)	Price per Ounce	Fair Value
2014	12,132	900.00	8,654
2015	6,066	900.00	4,181
	18,198	$ 900.00	$ 12,835

(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.

On December 2, 2011 Endeavour reduced the hedge book by 139,000 ounces for a cash settlement of $96.7 million. The remaining hedge book of 116,161 ounces of gold was re-profiled with deliveries of approximately 10,000 ounces during each of 2012 and 2013, and 32,000 ounces during each of 2014, 2015, and 2016 (ounces to be delivered on a quarterly basis) based on forward gold contracts at a price of $1,061.75 per ounce.

During the year ended December 31, 2012, forward contracts totaling 19,998 ounces, which includes the 2013 forward contracts of 10,000 ounces, were delivered resulting in a realized loss of $12.0 million. The realized loss from the delivery of the 2013 ounces was $6.3 million.

The following table details the forward contracts as at December 31, 2012:

Period	Forward contracts (ounces)	Price per Ounce	Fair Value
2014	32,000	1,061.75	18,134
2015	32,000	1,061.75	17,375
2016	32,163	1,061.75	16,797
	96,163	$ 1,061.75	$ 52,306

(iii) Youga Gold Mine, Burkina Faso

During the year ended December 31, 2011, call options totaling 56,620 ounces were settled with delivery of 33,088 ounces of gold production and 23,532 ounces were settled for a cash payment of $24.0 million. In addition, put options totaling 141,880 ounces expired unexercised or were cancelled upon the repayment of the hedge.

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

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(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 17(b).

The 32,487,501 Endeavour warrants with an exercise price of CDN $2.50 (Note 17(b)) are fair valued using the market price. The 544,390 Etruscan replacement warrants, (December 31, 2011 - 749,637), (Note 17 (b)) are valued using the Black-Scholes valuation. The following assumptions were used for the Black-Scholes for the years ended December 31:

	December 31, 2012	December 31, 2011
Risk-free interest rate	1.3%	1.2%
Expected life	0.9 years	1.6 years
Annualized volatility	54.1%	47.1%
Dividend rate	0.0%	0.0%
Forfeiture rate	0.0%	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 at December 31, 2012:

	Year ended December 31, 2012	Year ended December 31, 2011
Change in unrealized gain - gold price protection programs	$ 15,577	$ 55,217
Change in fair value of share purchase warrants	9,693	8,659
Total unrealized gain on financial derivatives	$ 25,270	$ 63,876

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

16. PROVISIONS

(a) Environmental rehabilitation provision

	December 31, 2012	December 31, 2011
Balance beginning of year	$ 9,100	$ 2,296
Assumed on acquisition of Avion (Note 5 (a))	12,314	-
Assumed on acquisition of Adamus (Note 5 (b))	-	6,716
Revisions in estimates and obligations incurred	9,059	-
Accretion	319	88
Balance end of year	$ 30,792	$ 9,100

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

The Corporation's undiscounted reclamation liability for the Nzema, Tabakoto, and Youga gold mines at December 31, 2012 is summarized as follows;

Gold Mine	Undiscounted reclamation liability	Discount Rate	Inflation Rate	Country Risk Rate	Projected Life of Mine
Tabakoto	$ 14,295	1.80%	2.80%	3.00%	2023
Nzema	18,792	1.80%	8.50%	5.00%	2020
Youga	2,592	1.80%	2.80%	3.00%	2019
	$ 35,679				

(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 significant parts of its advisory business, and a CDN$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 2012, Endeavour was an established gold producer with three operating mines producing gold at a rate of 300,000 ounces per year, a fourth mine under construction, and a pipeline of gold projects in West Africa.

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 crystalized and becomes payable upon the sale of a material gold asset,

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

16. PROVISIONS (continued)

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

the realization of increased value on completion 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 since 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 December 31, 2012 was equivalent to approximately CDN$952 million (or CDN$2.32 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 lanuch (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	CDN $1.77
B) Issued to acquire Etruscan Resources	15,401,909	CDN $2.72
C) Issued to aquire Adamus Resources Pty	129,340,958	CDN $2.48
D) Issued to acquire Avion Gold Corporation	162,055,600	CDN $2.50
E) Issued to complete Axmin property purchase (Avion acquisition)	328,500	CDN $2.40
	404,848,794	
Shares issued on exercise of options/warrants	5,873,950	CDN $1.73
Total issued shares as at December 31, 2012	410,722,744	CDN $2.32
Total cost base of current issued shares	CDN $952 Million	

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

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

16. PROVISIONS (continued)

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

The cost base methodology was designed to directly align the interests of Endeavour's management team with the market value and timing and potential value of the Corporation's shares.

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.

17. SHARE CAPITAL

(a) Voting shares

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

In October 2012, immediately following the acquisition of Avion, the Corporation issued 328,500 common shares and $0.1 million in cash for mineral interests, in accordance with the Mineral Property and Acquisition Agreement dated as of March 29, 2010, as amended on June 1, 2010 and December 23, 2010 between AXMIN Inc, Axmin-Mali Sarl, Avion and Nevsun Mali Exploration Limited.

(b) Warrants

A summary of the changes in warrants is presented below:

	Warrants outstanding	Weighted average exercise price (C$)
At December 31, 2010	34,902,157	$ 2.71
Exercised	(715,458)	1.76
Expired	(949,561)	12.17
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

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

17. SHARE CAPITAL (continued)

(b) Warrants (continued)

The following table summarizes the outstanding and exercisable warrants as at December 31, 2012:

Outstanding and Exercisable		Weighted average exercise price (C$)	Weighted average remaining contractual life
544,390		0.34	0.98 years
32,487,501		2.50	1.10 years
33,031,891	$	2.46	1.09 years

(c) Share based payments

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

	Options outstanding		Weighted average exercise price (C$)
At December 31, 2010	11,572,546	$	3.24
Granted	7,595,000		2.65
Exercised	(1,071,026)		1.93
Expired	(570,732)		7.73
At December 31, 2011	17,525,788		2.92
Issued on Avion Plan of Arrangement (Note 5 (a))	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

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

17. SHARE CAPITAL (continued)

(c) Share based payments (continued)

The following table summarizes information about the exercisable share options outstanding as at December 31, 2012:

Exercise Prices (C$)	Outstanding	Exercisable	Weighted average exercise price (C$)	Weighted average remaining contractual life
$0.00 - $1.50	1,845,639	1,845,639	$ 1.17	1.81 years
$1.51 - $2.00	12,466,700	12,466,700	1.76	2.72 years
$2.01 - $2.50	1,248,220	888,220	2.41	3.67 years
$2.51 - $3.00	7,874,312	7,874,312	2.67	3.23 years
$3.51 - $4.00	80,300	80,300	3.70	3.36 years
$4.01 - $44.96	2,359,647	2,359,647	6.40	3.29 years
	25,874,818	25,514,818	$ 2.46	2.90 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, 2012, there were 41,072,274 (December 31, 2011 – 24,460,995) options available for grant under the plan, of which 15,197,456 (December 31, 2011 – 6,935,207) are still available to be granted.

During the year ended December 31, 2012, 615,000 share options were granted with an average grant date fair value per option of $0.72. A share based payments expense of $0.4 million for the year ended December 31, 2012 was recorded (December 31, 2011 - $6.7 million).

On October 17, 2012, the Corporation issued 12,713,707 options to effect the acquisition of Avion, as described in Note 5 (a). 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 (a)).

Subsequent to December 31, 2012, on January 24, 2013 the Corporation issued 9,364,908 options with an exercise price of C$2.25 and an expiry date of January 24, 2018.

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

17. SHARE CAPITAL (continued)

(c) *Share based payments* (continued)

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

	December 31, 2012	December 31, 2011
Risk-free interest rate	1.1%	0.9%
Expected life	3.0 years	3.0 years
Annualized volatility	47.2%	49.3%
Dividend rate	0.0%	0.0%
Forfeiture rate	10.9%	10.9%

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

(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, 2012, of C$2.24 (December 31, 2011 – C$2.47).

	Year ended December 31, 2012	Year ended December 31, 2011
Share options	11,130,166	15,637,612
Share purchase warrants	32,487,501	32,412,255

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

	December 31, 2012	December 31, 2011
Basic weighted average number of common and exchangeable shares outstanding	278,861,983	120,056,019
Effect of dilutive securities		
Share options	3,491,717	1,888,176
Share purchase warrants	467,353	824,883
Diluted weighted average number of common and exchangeable shares outstanding	282,821,053	122,769,078

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

18. NON-CONTROLLING INTERESTS

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

	Avion Gold Corporation	Adamus Resources Pty Limited	Etruscan Resources Inc	Nambia Rare Earths Inc	Total
At December 31, 2010	$ -	$ -	$ -	$ 2,365	$ 2,365
Change of ownership (Note 12)	-	-	-	(2,475)	(2,475)
Acquisition of Adamus (Note 5(b))	-	22,636	-	-	22,636
Net earnings	-	654	2,945	110	3,709
At December 31, 2011	-	23,290	2,945	-	26,235
Acquisition of Avion (Note 5(a))	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

19. LOSSES ON FINANCIAL INSTRUMENTS

	Year ended December 31, 2012	Year ended December 31, 2011
Loss on marketable securities	$ (9,642)	$ (14,067)
Gain on promissory note	164	-
Imputed interest on promissory note	2,001	-
Interest income	302	443
(Loss) gain on derivative financial instruments (Note 15)	(799)	11,124
Gain on foreign currency	221	53
	$ (7,753)	$ (2,447)

20. ENDEAVOUR CAPITAL

Endeavour Capital provides management and administrative services, including accounting support and public company regulatory filing, for a number of junior public companies. Following the disposal of the debt advisory business in December 2011 (refer to note 21), Endeavour limited the scope of this legacy service business to a select group of clients associated with Fiore Financial Corporation and providing services to support the gold mining business.

Included in the operating results is a C$1.5 million payment to Gold Reserve Inc., for a full and final settlement of all claims between the parties. (Refer to note 29 (c)).

21. DISCONTINUED OPERATIONS

Disposal of debt advisory business

On November 9, 2011, the Corporation signed an Asset Purchase Agreement (the “Debt Sale”) to sell its debt advisory business effective December 31, 2011 to a newly incorporated Cayman Islands entity owned by a UK Partnership (the “Partnership”), of which one of the former managing directors of Endeavour’s debt business is a Partner. The announcement of the Debt Sale required the goodwill and intangible assets attributable to the debt advisory business to be fair valued and subsequently derecognized on the disposal of the business. The fair value assessment resulted in the de-recognition of intangible assets of $5.6 million and goodwill of $9.1 million that were attributed to the debt advisory business.

The disposal of the debt advisory business in December 2011, was completed by way of selling the client mandates and use of the Endeavour Financial brand name from its wholly-owned subsidiary, Endeavour Management Services (Cayman) (formerly Endeavour Financial International Corporation), 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.

An income approach (being the net present value of expected future cash flows) was used to determine the fair values of the three different payment streams making up the consideration; $10.0 million promissory note, $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. Estimates of expected future cash flows were based on estimates of projected future earnings, over a ten year period using a risk adjusted discount rate to reflect the perceived risk in achieving the cash flows to be generated from the newly independent debt advisory business.

In addition to the Debt Sale, the Corporation’s annual impairment assessment of the intangibles and goodwill attributable to the corporate advisory business, Endeavour Capital, resulted in an impairment loss for the year ended December 31, 2011 recognized in the statement of comprehensive earnings in the amount of $12.5 million and $20.2 million, respectively.

The Corporation reviewed the carrying amounts of its intangible assets and goodwill attributable to the corporate advisory business and determined that the carrying value of the assets were not recoverable as Endeavour is now a mining company and will not allocate significant resources to its legacy financial services activities. The residual financial services activities have been renamed Endeavour Capital and will continue to provide Fiore Financial Corporation (“Fiore”) with advisory services to companies launched by Fiore. This relationship may assist Endeavour in finding and assessing gold strategy opportunities. In assessing the carrying values in use, the estimated future cash flows were discounted to their present value using a pre-tax discount rate that reflected current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows had not been adjusted. It was determined that the recoverable amount of the intangible assets and goodwill of the corporate advisory business was estimated to be less than their carrying amounts. As a result an impairment loss on the intangible assets and goodwill was recorded immediately in earnings.

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

21. DISCONTINUED OPERATIONS (continued)

Disposal of debt advisory business (continued)

	Customer relationships	Customer contracts	Other intangible assets	Total
Cost				
Balance as at December 31, 2010	$ 25,000	$ 8,141	$ 3,000	$ 36,141
Derecognized on disposal of business (Note 20)	(7,750)	(2,524)	(930)	(11,204)
Impairment losses recognized in profit or loss (Note 20)	(17,250)	(5,617)	(2,070)	$ (24,937)
Balance as at December 2011	$ -	$ -	$ -	$ -
Accumulated amortization				
Balance as at December 31, 2010	5,694	8,141	3,000	16,835
Amortization	1,250	-	-	1,250
Derecognized on disposal of business (Note 20)	(2,153)	(2,524)	(930)	(5,606)
Impairment losses recognized in profit or loss (Note 20)	(4,791)	(5,617)	(2,070)	(12,479)
Balance as at December 2011	$ -	$ -	$ -	$ -
Carrying amounts				
As at December 31, 2010	19,306	-	-	19,306
As at December 31, 2011	$ -	$ -	$ -	$ -

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 interest free, unsecured and may be repaid 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.

The results of the discontinued operations included in the consolidated statement of comprehensive earnings are set out below.

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

21. DISCONTINUED OPERATIONS (continued)

Disposal of debt advisory business (continued)

The summarized statements of comprehensive earnings from discontinued operations is as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Income earned from external clients	$ -	$ 4,954
Operating expenses	-	(3,414)
Profit before tax from discontinued operations	-	1,540
Loss on disposal of operation		(5,177)
Attributable income tax expense	-	-
Earnings from discontinued operations	$ -	$ (3,637)

Discounted value of consideration received, net of expenses	-	9,588
Goodwill and intangibles disposed of	-	(14,685)
Tangible net assets disposed of	-	(80)
Net assets disposed of	-	(14,765)
Loss on disposal of operation	$ -	$ (5,177)

The summarized statements of cash flows for discontinued operations are as follows

	Year ended December 31, 2012	Year ended December 31, 2011
Net cash outflows from operating activities	$ -	$ 1,399
Net cash outflows	$ -	$ 1,399

22. ASSETS HELD FOR SALE

	December 31, 2012	December 31, 2011
Assets		
Mineral interests (Note 9)	3,587	-
	$ 3,587	$ -

On March 6, 2012 the Corporation entered into a definitive agreement (the "Agreement") with Resolute Mining Limited ("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

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

22. ASSETS HELD FOR SALE (continued)

cash. Subsequent to the year end, on March 5, 2013 the Agreement was extended to July 15, 2013.

Endeavour holds a 40% interest in the Finkolo joint venture, which was formed in 2003 by Endeavour's Etruscan subsidiary and Resolute is the operator. The transaction is subject to a number of conditions, including approval from the Government of Mali for the transfer of the exploration permits.

The assets held for sale are measured at the lower of carrying value and fair value less costs to sell and are classified as current as the transaction is expected to close within the next twelve months.

23. INCOME TAXES

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

Details of the income tax expense are as follows:

	December 31, 2012	December 31, 2011
Current income tax expense	$ 12,972	$ 618
Deferred income tax expense	30,360	7,610
Total income tax expense recognized in continuing operations	$ 43,332	$ 8,228

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, Mali, Monaco and the United Kingdom are subject to tax under the tax law of the respective jurisdiction. The Corporation is using a weighted average of the domestic tax rate applicable, except in the Cayman Islands, to reconcile earnings to the income tax expense.

(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* (continued)

	December 31, 2012	December 31, 2011
Earnings (loss) from contining operations	34,776	(8,203)
Weighted average domestic tax value	17.7%	17.8%
Income tax expense (recovery) based on weighted average domestic tax rates	6,155	(1,460)
Reconciling items:		
Rate differential	5,551	15,546
Effect of changes in tax rates	23,148	-
Effect of foreign exchange rate changes	(940)	-
Non-deductible expenses	8,279	568
Effect of alternative minimum taxes paid	1,849	-
Effect of changs in deferred tax assets not recognized	504	(5,784)
Other	(1,214)	(642)
Income tax expense recognized in net loss and total comprehensive loss	$ 43,332	$ 8,228

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

	December 31, 2012	December 31, 2011
Australia	30.0%	30.0%
Barbados	2.5%	N/A
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%	25.0%
Liberia	25.0%	25.0%
Mali	30.0%	N/A
Monaco	33.3%	33.3%
Namibia	37.5%	37.5%
United Kingdom	N/A	26.5%

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

23. INCOME TAXES (continued)

(b) Deferred tax balances

The significant components of the deferred income tax assets and liabilities are as follows:

	December 31, 2012	December 31, 2011
Deferred income tax assets		
Unused non-capital losses	$ -	$ 17,688
Deductible temporary differences relating to:		
Reserves and accruals	4,710	-
Reclamation and closure cost obligations	3,872	154
Mining interests	-	179
Unrealized loss on derivatives	22,204	12,567
Unrealized foreign exchange and other timing differences	2,309	1,730
	33,095	32,318
Deferred income tax liabilities		
Mining interests	(221,357)	(103,230)
Marketable securities	-	(56)
	(221,357)	(103,286)
Deferred income tax liabilities, net	$ (188,262)	$ (70,968)

	December 31, 2012	December 31, 2011
Net deferred income tax liability, beginning of year	$ (70,968)	$ (6,076)
Assumed on acquisition with Avion (Note 5 (a))	(86,934)	$ -
Assumed on merger with Adamus (Note 5 (b))	-	(57,282)
Income tax expense charge to earnings during the year	(30,360)	(7,610)
Net deferred income tax liability, end of year	$ (188,262)	$ (70,968)

23. INCOME TAXES (continued)

(c) Unrecognized deductible temporary differences

The Corporation recognizes tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets have been met. The Corporation's unrecognized deductible temporary differences for which no deferred tax assets are recognized consists of $58.5 million in deferred depreciation (December 31, 2011 – nil).

(d) 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 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 deferred tax expense relating to the temporary difference at Nzema arising from prior periods. The expense was offset from losses arising from a realized hedge loss.

The Corporation's Burkina Faso subsidiary, Burkina Mining Company SA, was audited by the Direction Generale Des Impots ("DGI") for its fiscal taxation years December 31, 2010

23. INCOME TAXES (continued)

(d) Tax rules and regulations (continued)

and December 31, 2011. The DGI audit is ongoing and no final tax reassessments have been received as of March 26, 2013. The Corporation is continuing to work with the DGI to finalize the audit and is hopeful that the matter will be resolved in the near future. 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. Due to the uncertainty of the amount of the tax assessment, no accrual has been made in the financial statements.

During 2011 the Corporation's Malian subsidiary, Segala Mining Company, 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. The Corporation has received further assessments for amounts totaling approximately $5.0 million (including penalties) pertaining to the fiscal years ended 2008, 2009 and 2010. These amounts have not been accrued for, as the Corporation believes its provision for taxes is sufficient to cover this assessment, and in addition, the Corporation has challenged these assessments, as well as the earlier assessment, as it believes they are both without merit.

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

24. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31, 2012	Year ended December 31, 2011
Operating activities		
Earnings (loss) from continuing operations before taxes	$ 34,776	$ (8,203)
Net earnings from discontinued operations	-	(3,637)
Adjust for:		
Depreciation and depletion	74,122	20,379
Loss on marketable securities (Note 19)	9,642	14,067
Accretion of reclamation and other closure obligations (Note 16)	319	88
Revisions in estimates and obligations incurred for the environmental rehabilitation provision (Note 16)	9,059	-
Amortization of intangible assets	-	1,250
Write-down of goodwill and intangible assets	-	32,685
Goodwill and intangible assets derecognized on disposal of debt business	-	14,685
Promissory note and other assets on disposal of debt business	-	(10,095)
Unrealized gain on promissory note and other assets	(164)	-
Imputed interest on promissory note and other assets	(2,001)	-
Share-based payments (Note 17 (c))	411	6,711
Unrealized gain (loss) on derivative financial liabilities (Note 15)	(25,270)	(63,876)
Unrealized foreign exchange gain loss	-	276
Write-down on gold bullion	946	-
Write-down of investment in associate, (Note 12)	3,564	9,831
Share of loss of associate, net of taxes (Note 12)	1,549	3,322
Gain on disposal of mining interests	(332)	-
Gain on disposal of diamond operations	-	(3,675)
Gain on dilution of ownership of associate (NREI)	-	(22,068)
Change in working capital of associate	-	(1,388)
Change in long-term receivable	3,308	-
Interest income	(842)	1,259
Interest received	136	(991)
Interest paid	(2,680)	-
Income tax paid	(722)	(1,058)
Reclamation deposit (Note 6)	(4,517)	-
Changes in non-cash working capital:		
Trade and other receivables	5,900	(5,515)
Prepaid expenses and other	(6,862)	-
Inventories	(3,305)	2,448
Trade and other payables	(3,664)	4,957
	$ 93,374	$ (8,548)

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

24. SUPPLEMENTAL CASH FLOW INFORMATION (continued)

The significant non-cash financing and investing transactions for the year ended December 31, 2012 consisted of the following;

(i) Issuance of 328,500 common shares for the full settlement of the purchase consideration of the Kofi-Soundoundjala and Kenieti-Serhokoto concessions (Note 17 (a)).

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:

	Year ended December 31, 2012	Year ended December 31, 2011
Short-term benefits	$ 8,393	$ 4,482
Post-employment benefits	25	3
Share-based payments	-	4,255
	$ 8,418	$ 8,740

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(a), 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) Development projects – operations involved in the construction of a mine and operations that have undergone a preliminary economic assessment.
(v) 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.

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

26. SEGMENTED INFORMATION (continued)

	Year ended December 31, 2012					
	Tabakoto Mine[1]	Nzema Mine	Youga Mine	Exploration	Corporate	Total
Revenue						
Gold revenue	$ 30,378	$ 172,335	$143,384	$ -	$ -	$ 346,097
Cost of sales						
Operating expenses	24,808	87,686	64,631	-	-	177,125
Depreciation and depletion	6,009	52,026	15,967	-	120	74,122
Earnings from mine operations	(439)	32,623	62,786	-	(120)	94,850
Corporate costs	-	-	-	-	22,147	22,147
Acquisition costs	-	-	-	-	5,805	5,805
Exploration	-	-	-	10,579	-	10,579
Gain on disposal of mining interests	-	-	(332)	-	-	(332)
Earnings (loss) from operations	(439)	32,623	63,118	(10,579)	(28,072)	56,651
Other (expenses) income						
Gain (Losses) on financial instruments	1,149	(11,371)	(139)	-	2,609	(7,753)
Write-down of gold bullion	-	-	-	-	(946)	(946)
Endeavour Capital loss and write-down of associated goodwill & intangibles	-	-	-	-	(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)
Earnings (loss) from continuing operations before taxes	656	20,580	62,903	(10,579)	(38,783)	34,776
Current income taxes	(3,037)	-	(9,241)		(695)	(12,972)
Deferred income taxes	(1,924)	(29,699)	1,038	-	226	(30,360)
Net earnings (loss) and total comprehensive earnings (loss) from continuing operations	$ (4,305)	$ (9,120)	$ 54,700	$ (10,579)	$ (39,252)	$ (8,556)

[1]Includes only the period October 18 to December 31, 2012 of operational results from the Tabakoto gold mine.
[2]There is no segmented statements of comprehensive earnings (loss) for development projects as all costs have been capitalized.

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

26. SEGMENTED INFORMATION (continued)

		Year ended December 31, 2011				
		Nzema Mine[1]	Youga Mine	Exploration	Corporate	Total
Revenue						
Gold revenue		$ 9,584	$137,643	$ -	$ -	$ 147,227
Cost of sales						
Operating expenses		8,409	57,796	-	-	66,205
Depreciation and depletion		2,727	17,517	-	135	20,379
Earnings from mine operations		(1,552)	62,330	-	(135)	60,643
Corporate costs		-	-	-	17,535	17,535
Acquisition costs		-	-	-	17,554	17,554
Exploration		-	-	3,423	-	3,423
Earnings (loss) from operations		(1,552)	62,330	(3,423)	(35,224)	22,131
Other (expenses) income						
(Losses) gains on financial instruments		15,084	(12,312)	-	(5,219)	(2,447)
Gain on sale of gold bullion		-	-	-	2,772	2,772
Endeavour Capital loss and write-down of associated goodwill & intangibles		-	-	-	(40,479)	(40,479)
Share of loss of associate, net of taxes (Note 12)					(3,322)	(3,322)
Write-down of investment in associate		-	-	-	(9,831)	(9,831)
Gain on change of ownership of associate		-	-	-	22,068	22,068
Gain on sale of diamond operations		-	-	-	3,675	3,675
Finance costs		(22)	(339)	-	(2,409)	(2,770)
		15,062	(12,651)	-	(32,745)	(30,334)
Earnings (loss) from continuing operations before taxes		13,510	49,679	(3,423)	(67,969)	(8,203)
Current income taxes		-	(267)	-	(351)	(618)
Deferred income taxes		(1,726)	(7,126)	-	1,242	(7,610)
Net earnings (loss) and total comprehensive earnings (loss) from continuing operations	$ -	$ 11,784	$ 42,286	$ (3,423)	$ (67,078)	$ (16,431)

[1]Includes only the 26 days of operations from the Nzema mine for the period December 5 to December 31, 2011
[2]There is no segmented statements of comprehensive earnings (loss) for development projects as all costs have been capitalized.

The debt advisory business was discontinued during the year ended December 31, 2011. The segment information reported on does not include any amounts for the debt advisory business, which is described in Note 21.

Segment revenue reported represents revenue generated from external customers. There were no inter-segment during the year ended December 31, 2012 or December 31, 2011.

The accounting policies of the reportable segments are the same as the Corporation's accounting policies described in Note 2.

(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

	Year ended December 31, 2012	Year ended December 31, 2011
Burkina Faso	$ 143,384	$ 137,643
Ghana	172,335	9,584
Mali	30,378	-
	$ 346,097	$ 147,227

Non-current Assets

	Year ended December 31, 2012	Year ended December 31, 2011
Burkina	$ 246,146	$ 132,972
Côte d'Ivoire	57,377	16,959
Ghana	527,055	530,939
Mali	550,709	3,587
Other	77,604	79,311
	$ 1,458,891	$ 763,768

Information about major customers

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

	December 31, 2012	December 31, 2011
Revenue from one customer in Youga segment	$ 143,384	$ 137,643
Revenue from one customer in Nzema segment	172,335	9,584
Revenue from two customers in Tabakoto segment	30,378	-
	$ 346,097	$ 147,227

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.

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

26. SEGMENTED INFORMATION (continued)

Total assets and liabilities from continuing operations

	December 31, 2012		December 31, 2011	
	Total assets[1]	Total liabilities	Total assets[1]	Total liabilities
Tabakoto Mine	$ 550,219	$ 177,827	$ -	$ -
Nzema Mine	581,697	177,484	585,890	122,328
Youga Mine	188,559	21,335	184,844	19,117
Agbaou Project	57,377	1,531	16,959	-
Houndé Project	115,668	-	-	-
Ouaré Project	10,548	115	7,237	-
Kofi Project	60,085	-	-	-
Corporate	184,488	234,519	159,525	151,952
Exploration	7,172	5,609	7,760	1,218
	$ 1,755,813	$ 618,418	$ 962,215	$ 294,615

[1]Included in Corporate is $51.2 million of goodwill and $2.1 million of goodwill associated with the merger of Adamus and (Note 5) and the acquisition of Etruscan Resources Inc.

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. The Corporation defines capital that it manages as net worth, which is comprised of total shareholders' equity and debt obligations (net of cash and cash equivalents and marketable securities).

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, 2012	December 31, 2011
Equity	$ 1,137,395	$ 667,600
Current and long-term debt	200,547	100,000
	1,337,942	767,600
Less:		
Cash and cash equivalents	(105,902)	(115,279)
Cash - restricted	(4,517)	(157)
Gold bullion	(45,234)	-
Marketable securities	(7,766)	(17,227)
	$ 1,174,523	$ 634,937

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, trade and other payables, derivative financial instrument 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 and marketable securities 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.

Fair value measurements of financial assets and liabilities recognized in the statement of financial position

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).

At December 31, 2012 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:

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

28. FINANCIAL INSTRUMENTS

Financial assets and liabilities

	December 31, 2012			
	Level 1 Input	Level 2 Input	Level 3 Input	Aggregate Fair Value
Assets:				
Cash and cash equivalents	$ 105,902	$ -	$ -	$ 105,902
Cash - restricted	4,517	-	-	4,517
Marketable securities	1,166	2,000	4,600	7,766
	$ 111,585	$ 2,000	$ 4,600	$ 118,185
Liabilities:				
Derivative financial liabilities	-	77,975	-	77,975
	$ -	$ 77,975	$ -	$ 77,975

At December 31, 2011 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, 2011			
	Level 1 Input	Level 2 Input	Level 3 Input	Aggregate Fair Value
Assets:				
Cash and cash equivalents	$ 115,279	$ -	$ -	$ 115,279
Cash - restricted	157	-	-	157
Marketable securities	2,204	10,421	4,602	17,227
	$ 117,640	$ 10,421	$ 4,602	$ 132,663
Liabilities:				
Derivative financial liabilities	-	75,065	-	75,065
	$ -	$ 75,065	$ -	$ 75,065

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

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

28. FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities (continued)

The following table reconciles the Corporation's level 3 fair value measurements (for example non-listed warrants and private companies) from December 31, 2011 to December 31, 2012:

	Private Equity	Options, Warrants	Total
Balance December 31, 2010	$ -	$ 363	$ 363
Realized & unrealized losses included in net income	4,600	(361)	4,239
Balance December 31, 2011	$ 4,600	$ 2	$ 4,602
Realized & unrealized losses included in net income	-	(2)	(2)
Balance December 31, 2012	$ 4,600	$ -	$ 4,600

Included in level 3 are certain marketable securities that are fair valued as follows; options and warrants for both publicly traded companies and 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, marketable securities held with investment dealers, marketable securities made in the form of a loan and trade and other receivables. 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 subject to senior indebtedness, the Corporation's security may have second or third priority.

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

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

28. FINANCIAL INSTRUMENTS (continued)

Financial instrument risk exposure (continued)

(i) *Credit risk* (continued)

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, 2012 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 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, 2012	December 31, 2011
Cash and cash equivalents	$ 105,902	$ 115,279
Cash - restricted	4,517	157
Marketable securities	7,766	17,227
Trade and other receivables	26,523	15,184
Promissory note and other assets	13,084	10,095
	$ 157,792	$ 157,942

(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.

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

28. FINANCIAL INSTRUMENTS (continued)

Financial instrument risk exposure (continued)

(ii) *Liquidity risk* (continued)

The following table summarizes the contractual obligations at December 31, 2012:

	Within 1 year	2 to 3 years	4 to 5 years	Over 5 years	Total
Trade and other payables	$ 105,745	$ -	$ -	$ -	$ 105,745
Long-term debt	-	200,547	-	-	200,547
Purchased ore obligations	7,149	2,268	-	-	9,417
Drill,blasting, load & haul	56,774	20,585	300	-	77,659
Engineering and construction	43,127	2,878	1,920	-	47,925
Finance lease obligations	1,569	1,286	-	-	2,855
Minimum operating lease payments	1,239	1,000	710		2,949
Catering & facilities management	1,877	2,452	-	-	4,329
Environmental rehabilitation provision	109	227	2,080	33,263	35,679
	$ 217,589	$ 231,243	$ 5,010	$ 33,263	$ 487,105

In the opinion of management, the working capital at December 31, 2012, together with future cash flows from operations, is sufficient to support the Corporation's commitments.

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.

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

28. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

(i) Currency risk

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

	December 31, 2012	December 31, 2011
Canadian dollar	$ (1,896)	$ (7,185)
Euro	(40,253)	647
Other currencies	2,548	5,303
	$ (39,601)	$ (1,235)

The effect on earnings and other comprehensive earnings before tax as at December 31, 2012 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 $3.9 million (December 31, 2011 – $0.1 million) assuming that all other variables remained constant. This calculation is based on the Corporation's statement of financial position as at December 31, 2012.

(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 and cash and cash equivalents. 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.

(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 three of its mines and its Agbaou project that is currently under construction for drill and blasting services, load and haul services and supply of explosives and supply of hydrocarbon services. The terms extend through the period January 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) Effective July 1, 2012, Nzema formally agreed on terms for a two year contract to purchase on average 4,000 tonnes of higher grade ore per month.

(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 $2.9 million. The terms extend through the period January 1, 2013 to February 2015. The Corporation is also subject to operating lease commitments in connection with rented office premises.

(iv) Endeavour selected its Engineering, Procurement and Construction Manager ("ECPM") for the Agbaou Gold Mine processing plant and certain other facilities in June 2012. The Corporation has commitments with the EPCM contractor and other service providers for the Agbaou Gold Mine from 2012 through to the final completion of the project.

(v) The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company cannot reasonably predict the likelihood or outcome of these actions. The Company 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.

(vi) The Company'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 Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

29. COMMITMENTS AND CONTINGENCIES (continued)

Commitments (continued)

Contingencies

(a) 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. BFMS also requested the arbitrator to grant injunctive relief to prevent the Corporation and Burkina Mining Company (the "BMC") from claiming under a performance guarantee provided by BFMS' parent company, EPC Groupe.

On January 17, 2013 the arbitrator rendered a decision which dismissed BFMS's claim against BMC but also rejected BMC's counterclaim against BFMS. Although the Corporation successfully defended the claim, the arbitrator found that the Corporation must settle its historical payables with BFMS; these had been deferred pending the outcome of the arbitration. Total historical payables together with interest due amount to $3.9 million. The Corporation has accrued for these costs in the financial statements.

(b) The Corporation was subject to a claim from Hightime Investments Pty Ltd. ("Hightime") which alleged that the Corporation entered into an arrangement with Hightime under which Hightime asserted that it allowed the Corporation to apply for, and obtain, a prospecting license over ground near the Southern Ashanti geological belt in Ghana in exchange for the Corporation paying Hightime the fair market value of the ground after the Corporation had completed its feasibility study. The claim was heard by the Supreme Court of Western Australia in April and June 2012. The court rendered its judgment on August 21, 2012, and ordered that Hightime's action be dismissed with Hightime to pay Endeavour's costs in connection with the action. On September 10, 2012, Hightime lodged an appeal against the decision of the Supreme Court of Western Australia. The appeal was discontinued on October 10, 2012 in conjunction with a settlement agreed to in the Corporation's favour which was executed on March 26, 2013.

(c) On September 20, 2012 the Corporation reached a settlement agreement with Gold Reserve Inc., whereby, in exchange for a full and final settlement of all the claims between the parties and without any admission as to liability, Endeavour paid C$1.5 million to Gold Reserve Inc.