TORO GOLD

Toro Gold Ltd

# Annual Report 2014

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# Contents

# Overview

- Building on the Mako Pre-Feasibility Study ("PFS") completed in mid 2014, and under the direction of Project Manager Russell White, the Company appointed a group of experienced and internationally respected engineers and consultants to complete a Definitive Feasibility Study ("DFS") for the Mako Project ("Mako" or the "Project") in late 2014.
- The DFS was completed in mid-2015 and demonstrates a viable development opportunity for Toro Gold.
- Environmental and Social Impact Assessment ("ESIA") work progressed including additional baseline data and analysis with an ESIA study completed in mid-2015 and supports the development of Mako.
- The Company engaged with the Government of Senegal through a newly formed Inter-ministerial Committee with the mutual intention of facilitating the permitting process for the development of Mako in the second half of 2015.
- The Company maintained exploration activities and successfully secured a Joint Venture in Cote d'Ivoire with Predictive Discovery Limited across 4 early stage permits covering prospective Birimian terrane.

*Mako mine site infrastructure, including open pit, Waste Rock dump, Tailings Facility, Rom Pad, Processing plant and Mine services Area*

# Chairman's Statement

I am delighted to report further progress across the Company over the last 12 months.

The Company has seen the Mako Project continue to progress through the completion of further studies and in parallel we have continued to build the capacity and experience of the management team as we move towards a development decision in 2015.

Building on the work completed in 2014, an Optimisation Study of the Mako PFS was completed in late 2014 which indicated the ability to enhance the Project across a number of areas. This resulted in a more robust project with a lower risk profile that will enable the project to withstand lower gold price environments while still remaining a viable development opportunity.

Based on the results of this Optimisation Study the DFS work started in late 2014 and was completed in mid-2015 by engineering and consulting groups who have a demonstrated track record of successful gold project development in West Africa. Overseeing the DFS is Russell White who joined the management team in late 2014. Russell brings a wealth of development experience in gold projects in West Africa and based on this and the experience of the DFS Study Group, the Company believes the DFS is a fit for purpose project design underpinned with a realistic execution strategy. In parallel we continue to make excellent progress around the ESIA under the direction of Paul Cannon and Glen Armstrong and with the completion of the in-fill resource drilling in early 2015, Howard Bills and his team have delivered the resource development work which underpins the Project.

We have been delighted with the pro-active support given by the Government of Senegal for the Project over the last year. 2014 saw the establishment of an Inter-ministerial Committee formed with representatives of the Company and the key decision makers from the Government of Senegal who will jointly be responsible for the awarding of the various permits and licences required for development. Led by Boubacar Thera on behalf of the Company, this working group has been meeting on a regular basis since Q3 2014 to ensure that the Government has an early indication of our plans and is able to work collaboratively with Toro to ensure Mako can be permitted in an efficient manner and be designed to result in the best outcomes for all stakeholders. This innovative approach is new to Senegal and has been welcomed by the Government as a progressive step in building a partnership for the development of Mako.

During the year the Company has continued to focus on cost control in light of the continued challenging capital market conditions in the junior mining sector. As field work has been completed this has necessitated a reduction in head count across the field operations as the Company continues to prepare for the development phase.

Despite these challenging markets and headwinds from the gold price, Toro continues to make excellent progress – for a company that was established in 2009 to have made a Greenfield exploration discovery and be at the point of a development decision that would see first gold poured in the first half of 2017 is a testament to the hard work of the team at Toro led by Martin Horgan. To have achieved this progress in the face of the financial challenges seen over the last few years makes the current success we are enjoying even more satisfying – I believe that we can look forward to a period of intense work over 2015 and 2016 that will be rewarded with that rare achievement of taking an exploration company through the transition to becoming a gold producer.

I would like to thank all our team at Toro Gold for their continued excellent work over the year. In addition my thanks goes to all of our partners in Government and in the private sector for their support without which the progress we have enjoyed would not have been possible.

**Mark Connelly**

*Non-Executive Chairman*

# Corporate Activities

## Funding

During the period, the Company undertook a number of fund raisings to continue the development of Mako and the Company's exploration portfolio.

An equity raising was completed in September 2014 for total proceeds of GBP 5,734,951m at £1.00/share. In addition to this raising was the conversion of the US$3m secured loan facility from Resource Capital Funds ("RCF") that the Company had completed in April 2014.

The raising was notable for the addition of a new institutional investor – Tembo Capital LLP – who subscribed for 4,191,617 shares of the September 2014 raising and accordingly became the second largest shareholder with 17.8 % of the Company's issued equity.

The funding was primarily used to advance the Mako project through the completion of resource drilling and associated DFS and ESIA studies.

With the Mako Project appearing to represent a viable development opportunity, the Company commenced a further fund raising effort in March 2015, with the intention of raising funds to support the pre-construction works for the Mako project, in addition to limited exploration programmes in Senegal and Cote d'Ivoire.

After the completion of an equity roadshow through March and April 2015 it was deemed that the investment appetite would result in unacceptable dilution to the current investor base. As such the Company has entered into a US$15m Secured Loan Facility with its three largest shareholders RCF, Tembo Capital and Macquarie Bank to fund the Company to a construction fund raising anticipated later in 2015.

In parallel with equity raising discussions, during April 2015 the Company began discussions with commercial bank lenders to assess the ability for Mako to utilise a secured project finance loan structure to partially fund the Mako project development. A number of debt providers have been approached with the intention of requesting expressions of interest to support Mako's development. While there is no guarantee that Mako will be able to secure such a loan facility, initial feedback indicated that bank lending capacity will likely be available for Senegal and that should Mako deliver a robust DFS and gain the necessary in country approvals, that it is likely that a project finance facility could be put in place to fund a significant portion of the project development costs. The Company will continue to work with this group of lenders over the balance of 2015 with the intention of securing a loan facility in good time to support the start of project construction later this year.

## Environmental and Social Performance Framework

The Company completed a review of its Environmental and Social Performance Framework (ESPF) that was originally drafted in 2011. The revised ESPF reflects the transition of the Company from exploration to feasibility and mine development. The Company maintains its commitment to the Performance Standards of the International Finance Institution ("IFC") as an appropriate benchmark of international good practice. Toro is also guided by a number of other sector specific standards, including the Sustainable Development Framework of the International Council on Metals and Mining, the UN Guiding Principles on Business and Human Rights and the International Cyanide Management Code.

The Company continued its investment contributions to the social, economic and institutional development of the communities in which it operates. Of particular note, the Company achieved substantive success in the results of its livelihood pilot programmes associated with the Mako Project, in both irrigated and rainfed agriculture. These programmes have attracted the active participation of local communities and the attention of other development partners for scale-up in future years. The results of the programmes have also informed engagement with potentially impacted communities on acceptable measures for livelihood restoration.

The Company continued its support to the Mako Biodiversity Fund, which was established in 2011 with the management authority for the Niokolo-Koba National Park. In May 2015 rehabilitation work was completed on a principle vehicular track within the Park, improving access for the purpose of environmental monitoring, tourism and anti-poaching patrols.

The Company continues to investigate opportunities for the Mako Project to catalyse broad and long-term sustainable development in the local area, including the National Park.

# Operations Review

## Mako Project, Senegal

Building on the positive outcome of the Pre-Feasibility Study completed in mid 2014, the Company continued to evaluate the Mako project with the goal of reaching a development decision during Q3 2015. Over the period the Company has:

- Completed the in-fill drilling campaign to support a DFS level resource estimation;
- Reassessed the Project via the Optimisation Study that recommended a number of project enhancements;
- Completed a full DFS using internationally recognised experts in West African gold project development and operations;
- Completed all baseline and impact studies required for the environmental and social assessment of the Project's development, operation and closure; and
- Completed the compilation of a full ESIA in line with both Senegalese and international standards.

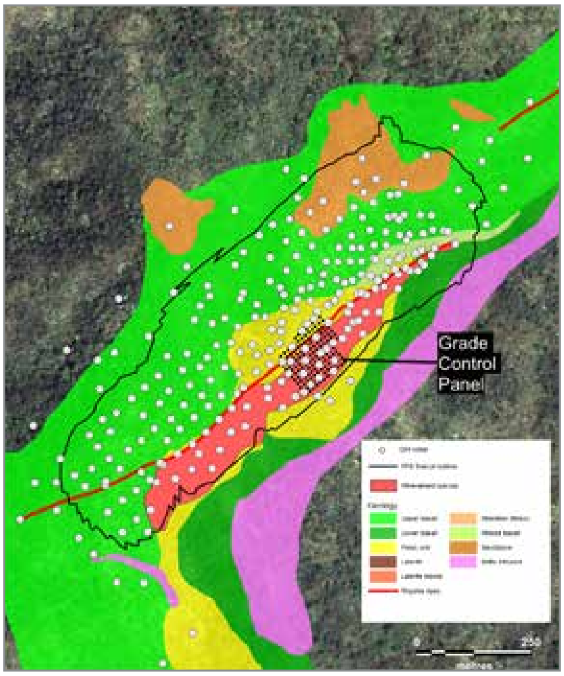
To oversee this body of work, Toro Gold appointed Mr Russell White to the management team in late 2014 as Project Manager for Mako. Mr White brings extensive development and operational experience in gold projects in West Africa and he is ideally suited to drive the Mako project through the DFS process and beyond into construction and ultimately production – his full biography is included in the Management Section of this report on page 12. Mr White is working with Paul Cannon and his team to deliver an integrated DFS/ESIA for Mako by mid 2015.

With the DFS and ESIA complete, and assuming that all permits and finance can be secured during the second half of 2015, it is hoped that full construction can commence in early 2016 that would lead to the commercial production of gold in the first half of 2017.

### Drilling

During the period, the Company completed the infill drilling campaign that is required to support a JORC compliant Resource estimate for use in the DFS. Working with Cube Consulting who had completed the February 2014 JORC Resource Estimate for use in the PFS, an infill drilling campaign was designed utilising a combination of diamond and Reverse Circulation Drilling methods ("RC Drilling"). The programme targeted a final drill density of 40m x 40m spacing across the final design pit area and 20m x 40m spacing across the PFS stage 1 pit area.

As part of this programme, the Company completed a total of 15,173 metres of drilling between March 2014 and January 2015 for some 117 core holes. These 117 holes form the final part of a total programme of some 304 core holes for 52,130m drilled over a three and a half year period since the discovery of Mako in 2011.




*Final Drill Collar Plan, Mako Project, 2015*

In addition, the Company completed a 4,600m RC Drilling programme which was implemented to test the close spaced geological variability of the Mako deposit and to simulate "grade control drilling" which will be employed during the production phase. This programme comprised drilling on a regular 10m by 10m grid over a 100m by 100m panel with the results being used in both the resource estimation and the mine planning processes of the DFS.

A programme of twin holes was also completed, whereby 4 core holes were "twinned" with RC drill holes. Results from the programme are considered excellent with good correlation between both sets of results observed.

Based on this final dataset, an updated JORC compliant Report is being compiled as part of the DFS in 2015.

In addition to the resource estimation work, further drilling was completed as part of a geotechnical work programme to test both open pit slope parameters and the ground conditions for the project infrastructure, including the TMF location, processing plant site and access road alignments.

While work has focused on the infill drilling of the known resources at Petowal to support the DFS, there has been somewhat limited exploration undertaken across the balance of Mako permit. With the DFS nearing completion and the availability of staff to refocus on exploration activities once more, additional exploration work has been completed during the last 12 months across the Mako permit resulting in a number of exploration targets being generated for further testing that have the potential to the resource and reserve base of the Mako Project.

*Resource drilling, Petowal Hill, 2015*

*Visible gold in core, 2015*

## Definitive Feasibility Study

With the retention of Perth based Russell White as Project Manager and building on the work completed as part of the PFS, a DFS team was assembled during the second half of 2014. Leveraging off the extensive body of West African gold experience available in Perth, Australia, and benefitting from predominately the same geographical location as the project manager, the DFS team is as follows:

| Consultants | |
|---|---|
| **Cube Consulting – Perth, Aus** | Geology, Resource Estimation |
| **SRK Consulting – Cardiff, UK** | Pit Geotech and Hydrogeology |
| **Coffey – Perth, Aus** | Mining Studies, Reserve Estimation |
| **Lycopodium – Perth, Aus** | Metallurgy<br>Process Route Design<br>Project Infrastructure<br>Study Manager |
| **Knight Piésold – Perth, Aus** | Tailings<br>Waste Dump<br>WSD<br>Water balance |
| **ECG – Perth, Aus** | Power Generation |
| **Earth Systems - Melbourne, Aus & Dakar, Senegal** | ESIA |
| **rePlan - Dakar, Senegal & Toronto, Canada** | Livelihood Restoration / Local Economic Participation |
| **The Biodiversity Consultancy - Cambridge, UK** | No Nett Loss Strategy |

*Geological database, 2015*

*Drilling operations, 2015*

The DFS evaluated certain aspects of the PFS with the aim of achieving an optimal outcome. Some of the aspects that have changed since the PFS include:

- A revised mine design and waste dump arrangement that provides for a much improved mine schedule and layout;
- An increased processing plant throughput to 1.8 million tonnes per annum to better match the mining schedule;
- An increased process plant throughput from 1.4 million tonnes per annum to 1.8 million tonnes per annum;
- Utilisation of partial secondary crushing / SAG Mill configuration for the comminution circuit in preference to the three stage crusher configuration proposed in the PFS;
- An increase in the P(80) target grind size to 125µm from 106 µm;
- Relocation of the Tailings Management Facility ("TMF") from the agriculturally important Wayako Valley to the Badalla Valley, adjacent to the waste rock dump; and,
- The implementation of a hybrid EPCM / Self Perform construction philosophy as successfully employed elsewhere in West Africa on similar gold project developments.

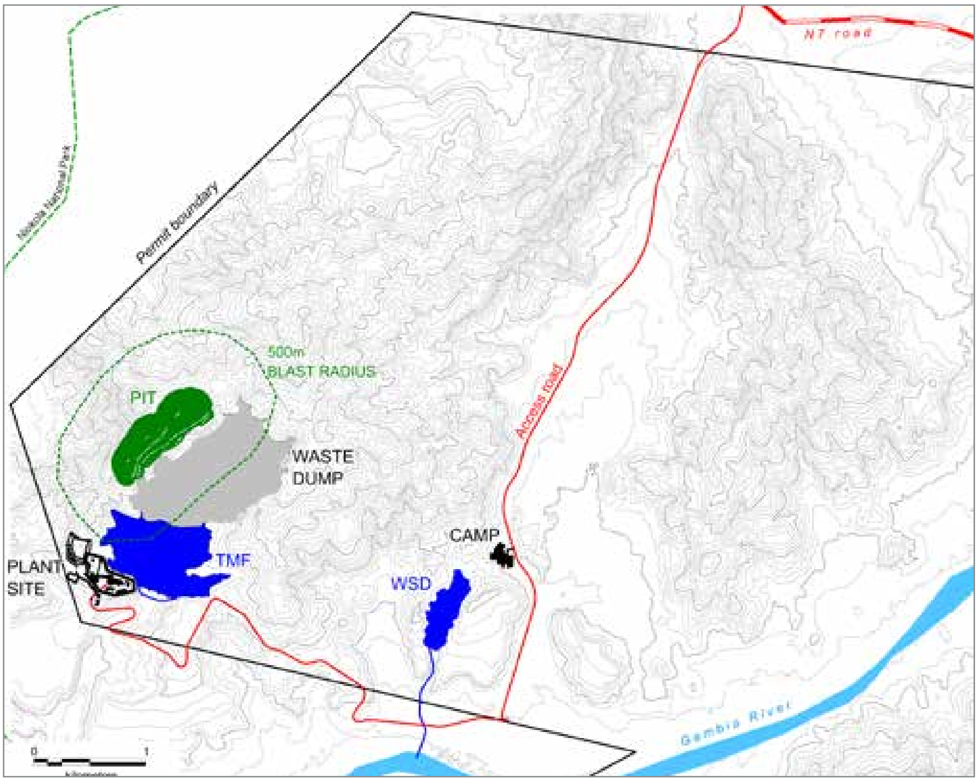
The DFS was completed in mid 2015 and a summary of the main findings are as follows:

- A Mineral Resource of 22.85mt at 1.83g/t Au for 1,345koz contained Au classified and reported in accordance with JORC 2012 guidelines[1];
- Open pit mining operation employing a conventional mining method of drill and blast followed by a truck and excavator, assuming Contract Mining ;
- An Ore Reserve, classified and reported in accordance with the JORC 2012 guidelines of 13.9mt at 2.22g/t Au for 996koz of contained gold has been reported at an average LoM strip ratio of 5.4(waste):1.0(ore);
- A 1.8mtpa capacity Carbon-In-Leach ("CIL") processing facility with an average life of mine ("LoM") recovery of 89.6 % at a target grind of P80 125µm;
- A production schedule that averages in excess of 140koz pa Au for first 5 years of operations at average processed grade of 2.72g/t Au;
- A Water Storage Dam with a capacity of 924,000 cubic metres based on abstraction from the Gambia River for part of the year;
- A Tailings Management Facility ("TMF") comprising a full compacted soil liner with an additional partial HDPE liner;
- A 14 MW Diesel fuelled power plant operated on an Independent Power producer ("IPP") basis; · A Camp accommodation facility of 130 beds; and,
- A hybrid EPCM / Self perform construction strategy for development

Economic Parameters:

- Development Capex of US$170M that includes both contingency (US$16.2m) and working capital (US$4.5m);
- LoM sustaining and closure capital of US$31.5M;
- LoM average All In Sustaining Cost ("AISC") of US$794/oz; and
- On a 100 % ownership and assuming US$1,150/oz gold price an NPV(5 % ) of US$100M and an IRR of 21 %

1 The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ('the JORC Code') is a professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves.




*Mako Project Feasibility Study Site Plan, 2015*

## Environmental and Social Impact Assessment

Since mid-2014 the Company has continued to elaborate the environmental and social baseline and impact assessment studies to support the DFS. Key elements of this supplementary work have included:

- Critical Habitat assessment and detailed field surveys to identify priority biodiversity values within the Project area;
- Design of an offset strategy to achieve no nett loss on biodiversity;
- Detailed modelling and impact predictions for surface and ground water resources, air quality and noise;
- Geochemical testwork which indicates that the risk of mine geological materials is low;
- Land and livelihood mapping within the Project area;
- Establishment of consultation structures with local communities to support their participation in the Project design and impact assessment process.

The Environmental and Social Impact Assessment (ESIA) is being prepared in line with Senegalese requirements and those of international investor / lender community, with specific reference to the IFC Performance Standards. A final Terms of Reference for the ESIA was lodged with the Government of Senegal in July 2014, with submission of the draft ESIA report anticipated in Q3 2015.

The summary findings of the ESIA are as follows:

- The assessment and management of environmental and social risks and impacts has been integral to the Project design. The Project has adopted the mitigation hierarchy to anticipate and avoid, or where avoidance is not possible, minimise, and where residual impacts remain, compensate / offset for impacts to affected communities and the environment;
- The ESIA has been undertaken to satisfy the requirements of both Senegalese legislation and international standards, in particular the IFC Performance Standards on Environmental and Social Sustainability;
- The Project can be built, operated and closed in a manner that does not compromise the community, existing economic values or the surrounding environment;
- The Project can provide a significant economic and skill development benefit to the people and country of Senegal;
- There is no requirement for the resettlement of affected communities and only limited economic displacement associated with land acquisition in the Project area;

- There is strong community and institutional support for the Project. Goodwill has been established through the strong and consistent engagement that the Project has had with the Government and local communities;
- The geochemical risk to water quality management and closure associated with waste rock and tailings was found to be low;
- The TMF is designed, and will be managed, so that it will not discharge to receiving waters during operations; and
- The ecological environment is sensitive due to the proximity of the Project to the Niokolo Koba National Park and Gambia River, which will necessitate a biodiversity offset to ensure that the Project will lead to a positive biodiversity legacy.

## Inter-ministerial Committee

Gaining the required approvals and permits to start the construction of the Mako project will be a key milestone for the Company to meet its development timeline. In a progressive and collaborative initiative, the Government of Senegal has formed an Inter-Ministerial Committee comprised of key individuals who will ultimately review and determine the approvals for Project development on behalf of the State. The Inter-Ministerial Committee was formed to allow the Company to work with these key individuals during the DFS and ESIA preparation stages to:

- Provide an early insight into the Mako project's technical parameters;
- Provide a platform for open discussion between the Company and the Government;
- Invite early feedback that can be incorporated into the Project design to assist in ensuring the optimal outcome for all stakeholders; and
- Help to streamline the subsequent approvals process by ensuring the Company submits the DFS and ESIA in form and content acceptable to the Government of Senegal.

A number of meetings have been held since September 2014 between the Company and the Inter-Ministerial Committee and have included visits to the project site as well as regular formal briefings on progress achieved. The Company has been delighted with this pro-active approach from our partners in the Government of Senegal, and it is hoped that this collaborative relationship can continue through the development and operational phases of Mako to ensure satisfactory outcomes for all the Project's stakeholders.

*Water sampling, 2015*

*Market gardens, 2015*

*Stakeholder engagement meeting, 2014*

*Archeological surveys, 2014*

# Group Exploration

Given the difficult market conditions experienced across the junior mining sector, the Company has sought to focus its resources on the development of the Mako project during the last 12 months. However, recognising that the Company has a track record of exploration success as well as these market conditions presenting a number of attractive investment opportunities the Company has undertaken a strategic review of the West African exploration market in an attempt to rebuild its exploration pipeline at what management believes to be an advantageous point in the commodity cycle.

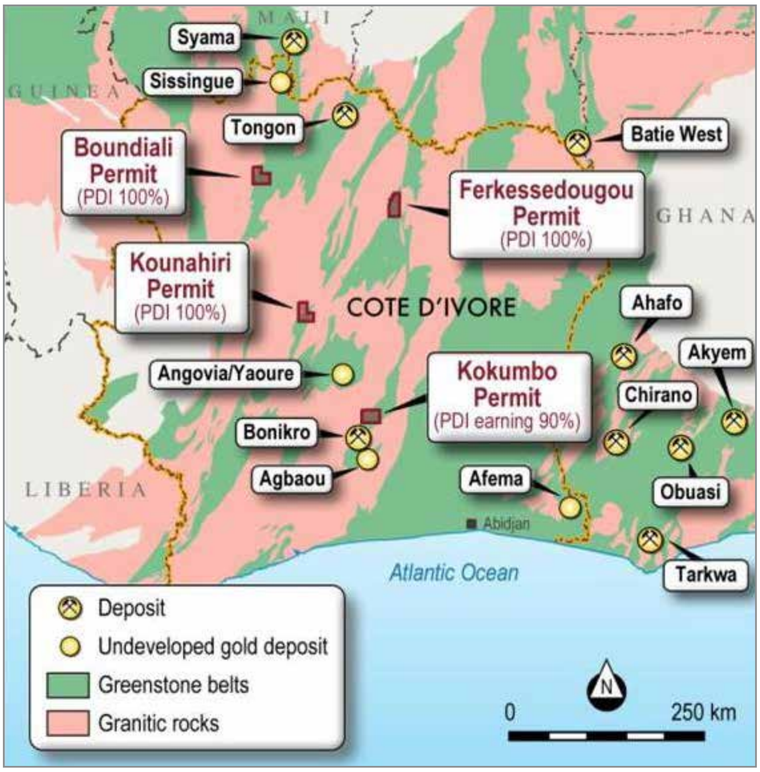
While focussing on those jurisdictions which are considered to represent lower risk investment climates within West Africa, the Company has sought opportunities where the geological potential is good and, where possible, has a history of relative under-exploration.

During late 2014 the Company signed a Heads of Agreement with Predictive Discovery Ltd (ASX:PDI or "PDI") under which Toro Gold can earn up to a 90% interest in PDI's Cote D'Ivoire subsidiary, Predictive Discovery Côte D'Ivoire SARL ("JVCo"). JVCo holds three large Exploration Permits plus a Joint Venture for a fourth permit covering highly prospective Birimian terrane in the Cote D'Ivoire (see table below).

**Toro can earn an interest in JVCo through the completion of the following stages:**

| Stage | Milestone | Interest | TOTAL |
|---|---|---|---|
| **Stage 1** | US$1,000,000 expenditure* | 51% | 51% |
| **Stage 2** | US$2,500,000 expenditure | 14% | 65% |
| **Stage 3** | Scoping study completion | 10% | 75% |
| **Stage 4** | Pre-Feasibility Study completion | 10% | 85% |
| **Stage 5** | Feasibility Study completion | 5% | 90% |

** The stage 1 expenditure is subject to a minimum of US$400,000 within 12 months of the signature of the Joint Venture Agreement.*




*PDI Permit Locations*

PDI can elect to contribute to the funding of JVCo post the completion of any discrete earn-in phase on a pro-rata basis to JVCo's holding at that time. A signature bonus of US$200,000 is payable to PDI upon Completion of the Joint Venture documentation with up to a further US$100,000 payments to PDI over the subsequent 24 months.

At the time of this Report the Joint Venture Agreement is close to Completion, and Toro Gold has commenced the first phase of surface work focussing on mapping and surface sampling at the Kokumbo Permit which lies on the same geological structure as the Bonikro and Agbaou gold mining operations.

The Company will maintain an active search for projects and permits that host good exploration targets and can be secured for relatively low entry costs.

Gabon – Given the down turn in the junior mining sector and the decision to prioritise the development of the Mako Project, no further field work has been completed in Gabon over the period. The Zomoko permits still host viable exploration targets in the previously disclosed soil anomalies at Ntou North and Nko Ridge and it is hoped that field activities can be recommenced in 2015/16 to drill test these permits.

# Board & Management Biographies

The Board and Management team of Toro Gold has an established track record of successful discovery and development of projects across Africa – this encompasses technical capability from the exploration phase through to operations and corporately in fund raising and M&A transactions.

The mix of complimentary technical and corporate skills allied to excellent political and business relations across the continent means that Toro Gold can identify and develop projects across our operational footprint in Africa to create returns for our shareholders.

## Board of Directors

### Mark Connelly

*Non Executive Chairman*

Mr Connelly was previously the Managing Director and CEO of Papillon Resources Ltd – a Mali based gold developer – and was previously Chief Operating Officer of Endeavour Mining Corporation, following its merger with Adamus Resources Limited where he was Managing Director and CEO. With over 25 years experience in the mining industry, Mark has held senior executive positions with Newmont Mining Corporation and Inmet Mining Corporation. He has extensive experience with the development, construction and operation of mining projects for a variety of commodities, including gold, base metals and other resources in West Africa, Australia, North America and Europe. He has a Bachelor of Business degree.

### Martin Horgan

*Chief Executive Officer & Executive Director*

A mining engineer by training, Martin has worked across numerous areas of the mining sector including as an engineer for Gold Fields in South Africa, for Steffen Robertson & Kirsten in the UK and RSA offices, at Barclays Capital and as Executive Director of BDI Mining Corp. At Barclays his responsibilities included the origination and execution of mining project finance and advisory business across the African and the Middle East regions, global responsibility for the technical appraisal and review of all investments, environmental and social compliance of the investments in line with international standards and the financial modelling of all transactions. As Executive Director of AIM listed BDI Mining, Martin was part of the team which negotiated the sale of the Company to Gem Diamonds in 2007 realising a record share price for the Group.

### Howard Bills

*Group Exploration Manager and Executive Director*

An exploration geologist by training, Howard has spent the last 30 years working predominately in gold and diamond exploration across the African continent undertaking work for BP Minerals, SRK Consulting, SAMAX and AXMIN. Over the years, Howard has developed an in-depth knowledge of a broad range of exploration techniques and the application of these to mineral exploration in the tropics.

As well as being involved in a number of discoveries across Africa, Howard has worked on mineral exploration projects in SE Asia and South America and while with SRK Consulting he was involved in various pre- and feasibility studies worldwide as well as preparing 43.101 documents and independent reports for stock exchange listings and private placements.

Prior to co-founding Toro Gold with Martin Horgan in 2009 Howard was Exploration Manager for AXMIN and General Manager of AXMIN's local operating company in the Central African Republic. Howard managed the discovery of the 3Moz Passendro gold project from grassroots to completion of the pre-feasibility study.

## Adonis Pouroulis

*Non Executive Director*

Adonis is an entrepreneur whose expertise lies in the discovery, exploration and development of mineral resources including diamonds, precious / base metals, coal and oil and gas, and bringing these assets into production across the African continent.

Adonis qualified as a mining engineer from the University of Witwatersand in Johannesburg in 1991 and subsequently spent some time working in the South African gold mines before heading to the Former Soviet Union where he established the Koronia metal trading company in Moscow. In 1994, having returned to South Africa, Adonis founded Blue Diamond Mines that developed a diamond mining operation in Port Nolloth and brought it into full production. Seeing an opportunity to create a larger, international diamond company focused in Africa, he founded Petra Diamonds and in 1997 it became the first diamond company to be listed on London's AIM market with a market capitalisation at the time of just £10 million. He has since overseen Petra's development from an exploration base into a FTSE 250 company and one of the largest independent diamond producers in Africa today.

He has been influential in the founding, development and listing of a number of other natural resources companies and is involved with other private companies all of which are at varying stages of the value chain within the Pella Resources Group.

## Boubacar Thera

*International Business Development Manager and Executive Director*

Boubacar Thera is a mining administrator and lawyer, has been involved with francophone African countries since 1994. Prior to joining Bambuk in 2009 Mr. Thera was appointed Manager and Chief Government Liaison Officer of AXMIN and African Selection Mining, and has previously acted as a consultant for other mining companies.

## Martin Reed

*Non Executive Director*

Mr. Reed is a mining engineer with over 35 years experience in general mine management and operations, as well as development of mines in Australia and overseas. He has particular experience in managing the development of companies from exploration focus through to producer status. Martin was the Chief Operating Officer and Project Manager for Sandfire Resources DeGrussa Copper Project in Western Australia. Previously he held senior positions at St Barbara Limited, Windimurra Vanadium Limited, Paladin Energy Limited AngloGold Ashanti Limited's (Sunrise Dam gold mine) and Western Mining Corporation. He was a non-executive director of Adamus Resources, later merged with Endeavour Mining where he was also a director. He is currently a director of Saracen Mineral Holdings.

## Robert Sinclair

*Non Executive Director*

Mr Sinclair is the Managing Director of Artemis Trustees Limited, founded by him in 2001. He has over 46 years' experience in finance and accountancy, of which 36 years have been in the Guernsey finance industry. Mr Sinclair has extensive experience in all aspects of offshore trusts, corporate entities and financial planning. He is a director of, and acts for, a number of mining and exploration companies, including Chariot Oil & Gas Limited (which is listed on AIM) and was formerly a director of Vallar PLC, Vallares PLC and which are admitted to the Official List and to trading on the London Stock Exchange, and Chromex Mining PLC which was also listed on AIM. Mr Sinclair is Chairman of Schroder Oriental Income Fund Limited and a director of Picton Property Income Limited which are admitted to the Official List and to trading on the London Stock Exchange, and Sirius Real Estate Limited and Secure Property and Investments plc which are listed on AIM. He is a fellow of the Institute of Chartered Accountants of England and Wales and a Member of the Institute of Chartered Accountants of Scotland and is resident in Guernsey."

# Management Team

**Martin Horgan** *Chief Executive Officer* | See page 10

**Gary Townsend** *Chief Financial Officer*

Gary is a Fellow of the Institute of Chartered Accountants and a Chartered Taxation Adviser. For the majority of the last 15 years he has worked for major gold mining companies in Africa in senior financial roles. From 1996 to 2004, he was Group Financial Controller of Ashanti Goldfields where he was in charge of structuring the finance department in order to accommodate several acquisitions including that of SAMAX. Within this role Gary was also integral in setting up and running the internal budgetary and reporting systems dealing with the Group's seven mining operations across Africa, mitigating tax liabilities and helping to refinance the Group prior to the Company being sold to Anglo Gold in June 2004.

Gary has also held positions as Chief Financial Officer and Company Secretary at Guinor Gold (which was subsequently sold to Crew Gold for US$350m following a raising of US$130m in equity and project finance to fund mine expansion) and more recently Horizonte Minerals Plc where he dealt with all financial aspects required for the operations in London, Peru and Brazil.

**Howard Bills** *Group Exploration Manager* | See page 10

**Boubacar Thera** *International Business Development Management* | See page 11

**Glen Armstrong** *Senior Environmental and Social Performance Advisor*

An environmental scientist and public health specialist by training, Glen has nearly 30 years experience in environmental management and social development, much of it International, having worked extensively across Africa, Latin America and South East Asia as well as Europe.

As Managing Director of Aspinwall and Company he led one of the UK's leading and most respected consultancies before joining IFC as head of its Environmental and Social Development team in Washington DC, responsible for environmental and social analysis of all its investments worldwide. After moving back to the UK he continued as an advisor to IFC and the World Bank during which he played a key role in facilitating the Equator Principles. In 2003 he co-founded Sustainable Finance Ltd providing E&S risk management services to over 40 major Banks globally before the Company was acquired by PWC in 2008. Since 2008 he has acted as an advisor to a range of organisations.

**Paul Cannon** *Environmental and Social Performance Manager*

Paul is an environmental and social specialist with 15 years experience integrating environmental and social sustainability into the design and implementation of work plans and projects. Over the last 7 years he has worked in the West African mining sector as both a consultant and within industry. This has included site-based accountability for environmental and social performance and the facilitation of permitting processes for new projects.

Previously he worked as an environmental and social consultant in Australia and Asia. During this time he successfully managed projects for the private sector, government and development agencies (including World Bank, Asian Development Bank, Agence Française de Développement, UNIDO, UNHabitat and DANIDA). Much of his work has been undertaken in the natural resource development sector, particularly associated with impact assessment, baseline studies, and management and monitoring planning for large infrastructure projects in the mining and energy sectors.

**Russell White**

Russell White has almost 30 years' experience in mineral processing including 14 years in mine commissioning and operations and 13 years in consulting engineering as Process Engineer and Project Design, and Commissioning Manager for firms such as Ausenco, Lycopodium and BHP Engineering. Russell has gained significant experience in African gold development through his work on numerous West African gold projects – Prior to his role as Design and Study Manager at Endeavour's Agbaou, Hounde and Nzema Sulphide gold projects, he fulfilled the role of Design and Commissioning Manager at Teranga's Sabodala gold operation in Senegal. More recently he has designed and managed the installation of crushing circuits and at the Nzema and Tabakoto projects.

# Report of the Directors

*Report of the Directors for the year ended 31 December 2014*

The Directors present their report together with the Group financial statements for the year ended 31 December 2014. There is no ultimate controlling party as the Company has a large number of shareholders; the most significant shareholding as at the date of signing is Resource Capital Funds who hold 19.6 %.

## Principal Activity

Toro Gold Limited is a gold exploration and development company focused on sub-Saharan Africa.

## Results & Dividends

The results for the year are set out on page 17.
The Directors do not recommend the payment of a dividend (2013: Nil).

## Directors

| | |
|---|---|
| Adonis Pouroulis | |
| Martin Horgan | |
| Phillip Jeffrey Gard | *(resigned 14 February 2014)* |
| Robert Sinclair | |
| Howard Bills | |
| Boubacar Thera | |
| Mark Connelly | *(appointed 14 February 2014)* |
| Martin Reed | *(appointed 14 February 2014)* |

## Review of the Business

A detailed review of the Group's activities together with future developments of the Group is provided in the Chairman's Statement and the Operations Review.

## Key Performance Indicators

The key performance indicators of the Group are as follows:

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Cash at bank | **2,987** | 5,766 |
| Exploration expenditure for the year | **12,427** | 14,902 |
| Impairment of intangible assests including discontinued operations | **2,923** | 2,135 |

## Financial Instruments

Details of the use of financial instruments by the Group and financial risk management are set out in note 17 to the financial statements.

## Events after the Reporting Date

See note 23 for further information.

## Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements for the Group in accordance with applicable Guernsey law and regulations.

Guernsey legislation requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year.

The Directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

International Accounting Standard 1 requires that the financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on a going concern basis unless, having assessed the ability of the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure the financial statements comply with The Companies (Guernsey) Law 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' statement as to disclosure of information to auditors

Each of the Directors, who were all members of the Board at the time of approving the financial statements, confirms that having made enquiries of fellow Directors:

- So far as the Directors are aware, there is no relevant information of which the Company's Auditors are unaware; and
- They have taken all the steps that ought to have been taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the next annual general meeting.

**By order of the Board**

*Artemis Secretaries Limited*

Secretary

Date: *27th August 2015*

# Independent Auditor's Report

TO THE MEMBERS OF TORO GOLD LIMITED

We have audited the financial statements of Toro Gold Limited for the year ended 31 December 2014 which comprise the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of the Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement within the Directors' Report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

## Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

## Opinion on the Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law 2008.

## Emphasis of matter - going concern

In forming our opinion on the Financial Statements, which is not modified, we have considered the adequacy of the disclosures made in note 2 to the Consolidated Financial Statements concerning the Group's ability to continue as a going concern. As described in further detail in note 23, subsequent to year-end the Group entered into a loan that is repayable, by 4 June 2016. At the time of signing these financial statements the Group has no committed facilities in place to enable it to repay the loan. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company or the Group; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

**BDO LLP**
55 Baker Street
London
W1U 7EU

Date: *27th August 2015*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Consolidated statement of profit or loss and other comprehensive income

*for the year ended 31 December 2014*

| | Note | Year ended 31 December 2014 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|---|
| Administrative expenses | 6 | **(2,994)** | (3,113) |
| Share based payments | 4 | **(1,694)** | (979) |
| Impairment of intangible assets | 11 | **(2,923)** | (98) |
| Exploration costs expensed | 11 | **(2)** | (1,356) |
| **Total operating expenses** | | **(7,613)** | (5,546) |
| **Loss from operations** | 4 | **(7,613)** | (5,546) |
| Finance income | 7 | **2,107** | 160 |
| Finance expense | 7 | **(422)** | - |
| **Loss for the year before taxation** | | **(5,928)** | (5,386) |
| Taxation expense | 8 | **(26)** | (36) |
| **Loss from continuing operations** | | **(5,954)** | (5,422) |
| Loss on discontinued operation, net of tax | 9 | **-** | (2,060) |
| **Loss and other comprehensive loss for the year** | | **(5,954)** | (7,482) |
| **Loss and other comprehensive loss for the year attributable to:** | | | |
| Owners of the parent | | **(5,950)** | (7,478) |
| Non-controlling interest | | **(4)** | (4) |
| | | **(5,954)** | (7,482) |

The notes on pages 21 to 41 form part of these financial statements.

## Consolidated statement of financial position
*as at 31 December 2014*

| | Note | 2014 US$'000 | 2013 US$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **1,041** | 1,347 |
| Intangible assets | 11 | **40,793** | 31,291 |
| Total non-current assets | | **41,834** | 32,638 |
| **Current assets** | | | |
| Trade and other receivables | 13 | **172** | 249 |
| Cash and cash equivalents | 14 | **2,987** | 5,766 |
| Total current assets | | **3,159** | 6,015 |
| **Total assets** | | **44,993** | 38,653 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **1,461** | 1,120 |
| Tax liabilities | | **29** | 33 |
| Other financial liabilities | 16 | **104** | 2,211 |
| **Total current liabilities** | | **1,594** | 3,364 |
| **Total liabilities** | | **1,594** | 3,364 |
| **Net assets** | | **43,399** | 35,289 |
| **EQUITY AND RESERVES** | | | |
| Share capital | 18 | **381** | 254 |
| Share premium | 18 | **79,504** | 67,261 |
| Share based payments reserve | | **5,349** | 3,655 |
| Retained losses | | **(41,810)** | (35,860) |
| **Equity attributable to the owners of the parent** | | **43,424** | 35,310 |
| Non-controlling interest | | **(25)** | (21) |
| **Total equity** | | **43,399** | 35,289 |

The financial statements were approved and authorised for issue by the Board of Directors on 27th August 2015 and were signed on its behalf by:

**Martin Horgan**
Director

The notes on pages 21 to 41 form part of these financial statements.

## Consolidated statement of cash flows
*for the year ended 31 December 2014*

| | Year ended 31 December 2014 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|
| **Operating activities** | | |
| Loss for the year | **(5,954)** | (7,482) |
| Adjusted for: | | |
| Depreciation of property, plant and equipment | **37** | 132 |
| Impairment of intangible assets | **2,923** | 98 |
| Share based payments | **1,694** | 979 |
| Movement in fair value of warrants | **(2,107)** | (160) |
| Loss on disposal of discontinued operation | **-** | 2,060 |
| Interest and other finance expense | **422** | - |
| Taxation expense | **26** | 36 |
| Operating loss before changes in working capital | **(2,959)** | (4,337) |
| Movement in receivables | **14** | (16) |
| Movement in payables | **(52)** | 251 |
| **Cash outflow from operating activities** | **(2,997)** | (4,102) |
| **Corporation tax paid** | **(34)** | (29) |
| **Net cash out flow from operating activities** | **(3,031)** | (4,131) |
| **Investing activities** | | |
| Payments in respect of intangible assets | **(11,601)** | (13,461) |
| Payments in respect of property, plant and equipment | **(95)** | (706) |
| Disposal of discontinued operation, net of cash disposed of | **-** | (12) |
| **Cash outflow used in investing activities** | **(11,696)** | (14,179) |
| **Financing activities** | | |
| Issue of ordinary shares, net of issue costs | **9,134** | 7,672 |
| Proceeds from borrowings, net of transaction costs | **2,814** | - |
| **Net cash inflow from financing activities** | **11,948** | 7,672 |
| **Net change in cash and cash equivalents** | **(2,779)** | (10,638) |
| Cash and cash equivalents at the start of the year | **5,766** | 16,404 |
| **Cash and cash equivalents at the end of the year** | **2,987** | 5,766 |

The notes on pages 21 to 41 form part of these financial statements.

## Consolidated statement of changes in equity
*for the year ended 31 December 2014*

| Group | Share capital US$'000 | Share premium US$'000 | Share based payments US$'000 | Retained losses US$'000 | Equity attributable to owners of parent US$'000 | Non-controlling interest US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2013 | 214 | 62,000 | 2,676 | (28,382) | 36,508 | (17) | 36,491 |
| Total comprehensive loss for the year | - | - | - | (7,478) | (7,478) | (4) | (7,482) |
| Issue of shares | 40 | 8,054 | - | - | 8,094 | - | 8,094 |
| Share issue costs | - | (422) | - | - | (422) | - | (422) |
| Share based payments - services | - | - | 979 | - | 979 | - | 979 |
| Share based payments - issue of warrants (note 16) | - | (2,371) | - | - | (2,371) | - | (2,371) |
| **Balance at 31 December 2013** | 254 | 67,261 | 3,655 | (35,860) | 35,310 | (21) | 35,289 |
| Total comprehensive loss for the year | - | - | - | (5,950) | (5,950) | (4) | (5,954) |
| Issue of shares | 95 | 9,495 | - | - | 9,590 | - | 9,590 |
| Share issue costs | - | (456) | - | - | (456) | - | (456) |
| Conversion of convertible loan | 32 | 3,204 | - | - | 3,236 | - | 3,236 |
| Share based payments | - | - | 1,694 | - | 1,694 | - | 1,694 |
| **Balance at 31 December 2014** | **381** | **79,504** | **5,349** | **(41,810)** | **43,424** | **(25)** | **43,399** |

The following describes the nature and purpose of each reserve within shareholders' equity:

| | |
|---|---|
| Share capital | Amount subscribed for share capital at nominal value |
| Share premium | Amount subscribed for share capital in excess of nominal value |
| Share based payments reserve | Reserve in respect of share based payments |
| Retained losses | Cumulative net gains and losses recognised in the statement of profit or loss and other comprehensive income |
| Non-controlling interest | Represents a 30 % shareholding in Toro Gold Gabon Limited |

The notes on pages 21 to 41 form part of these financial statements.

*Notes forming part of the financial statements for the year ended 31 December 2014*

## 1 General information

Toro Gold Limited ("Toro Gold" ot the "Company") is a company incorporated and domiciled in Guernsey with registration number 50076. The Group's administrative and registered office is at Trafalgar Court, Admiral Park, Guernsey GY1 3EL. The nature of the Group's operations and its principal activities are set out in the Directors' Report and in the Operations review.

## 2 Accounting policies

### Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued by the International Accounting Standards Board (IASB) adopted by the European Union (IFRS). The adoption of all of the new and revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to the operations and effective for annual reporting periods beginning on 1 January 2014 are reflected in these financial statements.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

### New accounting standards

The following new standards and amendments to standards are mandatory for the first time for the Group for financial year beginning 1 January 2014. Except as noted, the implementation of these standards did not have a material effect on the Group.

| Standard | Effective date | Impact on initial application |
|---|---|---|
| IFRS 10 – Consolidated Financial Statements | 1 Jan 2014 | No impact |
| IFRS 11 – Joint Arrangements | 1 Jan 2014 | No impact |
| IFRS 12 – Disclosure of Interests in Other Entities | 1 Jan 2014 | No impact |
| IAS 27 – Amendment - Separate Financial Statements | 1 Jan 2014 | No impact |
| IAS 28 – Amendment - Investments in Associates and Joint Ventures | 1 Jan 2014 | No impact |
| IAS 32 – Offsetting Financial Assets and Financial Liabilities | 1 Jan 2014 | No impact |
| IAS 36 – Recoverable Amounts Disclosures for Non-financial Assets | 1 Jan 2014 | No impact |
| IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting | 1 Jan 2014 | No impact |
| IFRIC 21 – Levies | 1 Jan 2014 | No impact |

No other IFRS issued and adopted but not yet effective are expected to have an impact on the Group's financial statements.

## Accounting policies (continued)

Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

| Standard | Description | Effective date |
|---|---|---|
| IAS 1* | Presentation of Financial Statements (Amendments) | 1 Jan 2016 |
| IAS 19 | Defined Benefit Plans (Amendments) | 1 Feb 2015 |
| IAS 16* and IAS 38* | Clarification of Acceptable Methods of Depreciation and Amortisation | 1 Jan 2016 |
| IFRS 11* | Joint Arrangements (Amendments) | 1 Jan 2016 |
| IAS 27* | Separate Financial Statements | 1 Jan 2016 |
| IFRS 10* and IAS 28* | Investments in Associates and Joint Ventures (Amendments) | 1 Jan 2016 |
| IFRS 9* | Financial Instruments | 1 Jan 2018 |
| IFRS 10, IFRS 12 and IAS 28 | Investment Entities (Amendments) | 1 Jan 2016 |
| IFRSs | Annual Improvements to IFRSs (2010 – 2012 Cycle) | 1 Feb 2015 |
| IFRSs | Annual Improvements to IFRSs (2011 – 2013 Cycle) | 1 Jan 2015 |
| IFRSs* | Annual Improvements to IFRSs (2012 – 2014 Cycle) | 1 Jan 2016 |
| IFRS 15* | Revenue from Contracts with Customers | 1 Jan 2017 |

**not yet been endorsed by the European Union at the date that these financial statements were approved and authorised for issue by the Board.*

The Group is evaluating the impact of the above pronouncements but they are not expected to have a material impact on the Group's income or equity.

### Going concern

As detailed in note 23 the Group entered into a US$15m loan facility with its three largest shareholders. This loan is convertible at the option of the loan holders and if not converted is repayable by 4 June 2016. At the time of signing these financial statements the company has no committed facilities in place to enable it to repay the loan.

The Directors expect, based on historical experience, the loans to be converted rather than repaid however there can be no certainty of this, and should the loan holders demand repayment then the Directors would need to seek alternative sources of finance. Should the company be unable to source additional finance, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

These circumstances indicate the existence of material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was not able to continue as a going concern.

### Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the result of the Company and its subsidiaries (the "Group") as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

### Functional and presentation currency

The functional currency of the Company and its subsidiaries is US Dollars and the Group has adopted US Dollars as its presentation currency.

### Foreign currencies

In the accounts of individual Group companies, Toro translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in currencies other than US Dollar are translated at the year end exchange rate with any exchange gain or loss going to the statement of profit or loss and other comprehensive income.

*Notes forming part of the financial statements for the year ended 31 December 2014*

## Accounting policies (continued)

### Intangible assets

Intangible assets comprise capitalised costs associated with acquiring, exploring and evaluating the Group's mineral properties. When a decision is made to proceed to development, the related expenditures will be transferred to property, plant and equipment. Where a licence is relinquished, a project is abandoned, or is considered to be of no further commercial value to the Group, the related costs are written off.

These assets are not amortised but are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

### Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost.

Depreciation is provided on all items of property, plant and equipment so as to write off the carrying value of an item, less its estimated residual value, on a straight-line basis over the expected useful economic life of that item as follows:

| | |
|---|---|
| Buildings and infrastructure | -10 % per annum |
| Plant and equipment | - 25 % per annum |
| Vehicles | - 25 % per annum |
| Office equipment | - 25 % per annum |

The estimated useful lives, residual values and depreciation method are reassessed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

### Impairment of assets

The carrying amounts of non-current assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the statement of profit or loss and other comprehensive income and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in the prior years.

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The Group's cash-generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairments are recognised in the statement of profit or loss and other comprehensive income to the extent that the carrying amount exceeds the assets recoverable amount. The revised carrying amounts are amortised in line with the Group's accounting policies.

### Share - based payments

Where equity settled share awards are granted to employees or directors, the fair value of the awards at the date of grant is charged to the consolidated statement of profit or loss and other comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of awards that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the awards granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of awards are modified before they vest, the increase in the fair value of the awards, measured immediately before and after the modification, is also charged to the consolidated statement of profit or loss and other comprehensive income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the consolidated statement of profit or loss and other comprehensive income is charged with the fair value of goods and services received, except where the 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 entity obtains the goods or the counterparty renders the service.

## Accounting policies (continued)

### Financial instruments

#### Financial assets

Financial assets consist of cash at bank, trade and other receivables.

Trade and other receivables are non-derivative financial assets that are initially recognised at fair value and subsequently carried at amortised cost.

Cash and cash equivalents include cash in hand and short-term deposits with original maturities of three months or less.

#### Financial liabilities

Financial liabilities are classified into one of two categories, trade payables and other financial liabilities. Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Other financial liabilities comprise of derivative financial liabilities and the liability component of convertible debt. Derivative financial liabilities are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of profit or loss and other comprehensive income. The liability component of convertible debt are measured as described further below.

### Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or a financial asset.

The Company's ordinary shares are classified as equity instruments.

### Convertible debt

The proceeds received from convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost until extinguished on conversion or maturity. The remainder of the proceeds, representing the embedded option to convert the liability into equity of the Company, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible debt where appropriate based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the effective interest rate for similar non-convertible debt. The difference between this amount and the interest paid is added to the carrying amount of the liability.

### Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale which, in the case of mineral properties, is when they are capable of commercial production. All other borrowing costs are charged to the consolidated statement of profit or loss and other comprehensive income, as incurred.

*Notes forming part of the financial statements for the year ended 31 December 2014*

### Taxation

Income tax expense represents the sum of the current tax and deferred tax charge for the year.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductable temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that have been enacted or substantially enacted and are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the statement of profit or loss and other comprehensive income, except when it relates to items charged or credited direct to equity, in which case the deferred tax is also dealt within equity.

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 Group intends to settle its current tax assets and liabilities on a net basis.

### Non-controlling interest

The total comprehensive income of non-wholly owned subsidiaries is attributed to the owners of the parent and to the non-controlling interest in proportion to their relative interest.

## 3 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

### Exploration and evaluation costs

The Group capitalises the exploration and evaluation costs until it is capable of determining whether its exploration efforts were successful and are assessed for impairment when circumstances suggest that the carrying amount may exceed the recoverable value thereof. This assessment involves judgement as to the likely future commerciality of the asset and when such commerciality should be determined as well as future revenues and costs pertaining to the utilisation of the mining lease or mineral production rights to which such capitalised costs relate and the discount rate to be applied to such future revenues and costs in order to determine a recoverable value.

The carrying amount of capitalised exploration and evaluation costs as at 31 December 2014 was US$40,793,000 (2013: US$31,291,000).

### Fair value of financial instruments and share-based payments

The Group determines the fair value of financial instruments that are not quoted and equity-settled share-based payments, using valuation techniques and models which are significantly affected by the assumptions used. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately. The methods and assumptions applied, and valuations models used are disclosed in notes 16 and 19.

## 4 Loss from operations

| | Year ended 31 December 2014 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|
| **The loss from operations is stated after:** | | |
| Share based payments | **1,694** | 979 |
| Depreciation | **37** | 132 |
| **Auditor's remuneration:** | | |
| Fee payable to the auditor for the audit of the Group and subsidiary annual financial statements | **70** | 71 |

## 5 Employment costs

| | | Year ended 31 December 2014 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|---|
| **(a)** | **Employment costs, including directors** | | |
| | Wages and salaries | **4,301** | 4,986 |
| | Social security costs | **325** | 405 |
| | Share based payments | **1,694** | 979 |
| | | **6,320** | 6,370 |

Included in staff costs is an amount of US$2,896,000(2013: US$3,143,000) which has been capitalised within intangible assets – exploration and evaluation cost.

| | | Year ended 31 December 2014 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|---|
| (b) | Key management remuneration | | |
| | Wages and salaries | **1,776** | 1,595 |
| | Share based payments | **1,405** | 979 |
| | | **3,181** | 2,574 |

Key management comprises the directors and 3 (2013: 3) members of senior management across the parent and subsidiary companies.

*Notes forming part of the financial statements for the year ended 31 December 2014 (continued)*

## 6 Expenses by nature

| | Year ended 31 December 2014 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|
| Wages and salaries, including directors | **1,530** | 1,644 |
| Social security costs | **165** | 203 |
| Administration services | **106** | 103 |
| Legal and professional fees | **103** | 128 |
| Consultants and contractors | **-** | 63 |
| Travel and related costs | **107** | 142 |
| Loss on foreign exchange | **401** | 252 |
| Rent and rates | **217** | 216 |
| Communications | **100** | 116 |
| Other costs | **265** | 246 |
| | **2,994** | 3,113 |

## 7 Finance income and expense

### Finance Income

| | Year ended 31 December 2014 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|
| Fair value movement on derivative financial liability (see note 16) | **2,107** | 160 |
| **Total** | **2,107** | 160 |

### Finance expense

| | Year ended 31 December 2014 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|
| Interest and other finance expense (see note 16) | **422** | - |
| **Total** | **422** | - |

## 8 Taxation

The Company is tax resident in Guernsey, where corporate profits are taxed at zero percent. The Group's subsidiary companies which are incorporated in BVI and Guernsey are also taxed at zero percent. The Group's subsidiary companies in Senegal are taxed at 30%. No taxable charge arose in the year in Senegal (2013: Nil). The Group's subsidiary Toro Technical Services Limited is a United Kingdom resident company where profits earned on providing management services are taxed at 21.5% (2013: 23.25%).

### Factors affecting the tax charge for the year

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in Guernsey applied to losses for the year are as follows:

| | Year ended 31 December 2014 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|
| Loss on ordinary activities for the year before tax | **(5,928)** | (5,386) |
| Loss on ordinary activities for the year at the standard rate of corporationTax in Guernsey of 0% (2013: 0%) | - | - |
| Difference in overseas tax rates of 21.5% (2013: 23.25%) | **22** | 27 |
| Disallowable expenses | **3** | 3 |
| Difference between capital allowances and depreciation | **3** | 4 |
| Adjustments in respect of previous year | **(2)** | 2 |
| **Total taxation charge** | **26** | 36 |

Deferred tax assets were not recognised as there is uncertainty regarding the timing of future profits against which these assets could be utilised.

*Notes forming part of the financial statements for the year ended 31 December 2014 (continued)*

## 9 Discontinued operations

In November 2013, the Company sold its 100% interest in Toro East Africa Limited for a cash consideration of US$1. The Company also received US$19,600 for tangible assets and cash disposed of. Toro East Africa Limited owned and operated exploration projects in Sudan. This was the only operation presented as a discontinued operation.

### Loss on disposal of discontinued operation

| | Year ended 31 December 2014 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|
| Cash consideration received | - | 20 |
| Other consideration received | - | - |
| **Total consideration received** | - | 20 |
| Cash disposed of | - | (10) |
| Costs of sale | - | (22) |
| **Net cash outflow on disposal of discontinued operation** | - | (12) |
| **Net assets disposed (other than cash):** | | |
| Property, plant and equipment | - | (10) |
| Pre-tax loss on disposal of discontinued operation | - | (22) |
| Related tax expense | - | - |
| **Loss on disposal of discontinued operation** | - | (22) |

## 9 Discontinued operations (continued)

### Result of discontinued operation

| | Year ended 31 December 2014 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|
| Administrative expenses | - | (1) |
| Impairment of intangible assets | - | (2,037) |
| Loss on disposal of discontinued operation | - | (22) |
| **Loss for the year** | - | (2,060) |

### Statement of cashflows

| | Year ended 31 December 2014 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|
| Operating activities | - | (1) |
| Investing activities | - | (457) |
| **Net cash outflow on discontinued operation** | - | (458) |

*Notes forming part of the financial statements for the year ended 31 December 2014 (continued)*

## 10 Property, plant and equipment

| | Buildings and infrastructure US$'000 | Plant and equipment US$'000 | Vehicles US$'000 | Office equipment US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2013 | 356 | 369 | 553 | 98 | 1,376 |
| Additions | 262 | 356 | 144 | 14 | 776 |
| Disposals | - | (15) | - | - | (15) |
| At 31 December 2013 | 618 | 710 | 697 | 112 | 2,137 |
| Additions | 102 | - | - | - | 102 |
| Disposals | (65) | (17) | (18) | - | (100) |
| **At 31 December 2014** | **655** | **693** | **679** | **112** | **2,139** |
| *Depreciation* | | | | | |
| At 1 January 2013 | 9 | 123 | 154 | 53 | 339 |
| Charge | 108 | 157 | 166 | 25 | 456 |
| Disposals | - | (5) | - | - | (5) |
| At 31 December 2013 | 117 | 275 | 320 | 78 | 790 |
| Charge | 59 | 168 | 157 | 17 | 401 |
| Disposals | (65) | (17) | (11) | - | (93) |
| **At 31 December 2014** | **111** | **426** | **466** | **95** | **1,098** |
| **Net book value** | | | | | |
| **At 31 December 2014** | **544** | **267** | **213** | **17** | **1,041** |
| At 31 December 2013 | 501 | 435 | 377 | 34 | 1,347 |
| At 31 December 2012 | 347 | 246 | 399 | 45 | 1,037 |

For the year ended 31 December 2014 US$364,000 (2013: US$324,000) of the depreciation charge has been capitalised within exploration and evaluation costs.

## 11 Intangible assets

| | Exploration and Development Costs US$'000 |
|---|---|
| **Cost** | |
| At 1 January 2013 | 19,880 |
| Additions during the year | 13,546 |
| Impairments | (98) |
| Disposal of subsidiary | (2,037) |
| **At 31 December 2013** | **31,291** |
| Additions during the year | 12,425 |
| Impairments | (2,923) |
| **At 31 December 2014** | **40,793** |

The impairment of US$2,923,000 (2013: US$98,000) represents writing down to nil the carrying value of those projects which the Directors consider to be of no commercial value or where no further exploration work will be undertaken. In 2013 the Group also impaired the carrying value of its project in Sudan which was subsequently sold.

The remaining exploration and evaluation costs relate to the Mako project in Senegal. As the project is not yet in production no amortisation has been charged for the year ended 31 December 2014 (2013: Nil).

Exploration and evaluation costs amounting to US$2,000 were expensed during the year (2013: US$1,356,000). These related to expenditures on projects considered to be of no further commercial value to the Group.

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*Notes forming part of the financial statements for the year ended 31 December 2014 (continued)*

## 12 Investments

Details of the investments in which the Group and the Company (unless indicated) holds 50 % or more of the nominal value of any class of share capital at 31 December 2014, excluding dormant entities, are as follows:

| Name of company | Holding | Proportion of voting rights and shares held | Nature of business |
|---|---|---|---|
| Bambuk Minerals Limited a company incorporated in the British Virgin Islands | Ordinary shares | 100 % | Exploration company |
| Mako Exploration Company S.A. a company incorporated in Senegal | Ordinary shares | 100 % | Exploration company |
| Toro Technical Services Limited a company incorporated in the United Kingdom | Ordinary shares | 100 % | Services company |
| Toro Gold Gabon Limited a company incorporated in Guernsey | Ordinary shares | 70 % | Exploration company |
| Toro Gold Gabon SARL a company incorporated in Gabon | Ordinary shares | 70 % | Exploration company |

## 13 Other receivables

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Other receivables | **23** | 35 |
| Prepayments | **149** | 214 |
| | **172** | 249 |

## 14 Cash and cash equivalents

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| **Analysis by currency** | | |
| Euro balance | **1,463** | 2,837 |
| Sterling balance | **781** | 2,530 |
| US Dollar balance | **257** | 103 |
| CFA Franc balance | **85** | 291 |
| Australian Dollar balance | **401** | - |
| Guinea Franc balance | **-** | 5 |
| | **2,987** | 5,766 |

## 15 Trade and other payables

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Trade payables | **801** | 634 |
| Accruals | **660** | 486 |
| | **1,461** | 1,120 |

All trade payables are due for payment within 30 days. Trade payables and accruals arise in different currency amounts, as set out below:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| CFA Franc (FCFA) | **710** | 424 |
| British Pound Sterling (GBP) | **504** | 335 |
| United States Dollars (USD) | **128** | 33 |
| Euro (EUR) | **36** | 199 |
| Australian Dollars (AUD) | **83** | 121 |
| Guinea Franc (GNF) | **-** | 8 |
| | **1,461** | 1,120 |

## 16 Other financial liabilities

### (a) Derivative financial liabilities

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Liabilities at fair value through profit or loss | **104** | 2,211 |
| | **104** | 2,211 |

Derivative financial liabilities of US$104,000 (2013: US$2,211,000) represent the fair value of 2,644,397 warrants granted to each subscriber of new equity shares issued in September 2013. Each warrant gives the warrant holder the right to subscribe for one ordinary share of the Company of £0.01 at £3.00 per share for a period of two years from the date of grant.

As the Company's functional currency is US Dollars and the warrants' terms are in Pounds Sterling the arrangement will not result in Toro issuing a fixed amount of its equity shares for a fixed amount of cash when each warrant is exercised. The warrants are therefore accounted for as a derivative financial liability measured at fair value through profit or loss.

On initial recognition the fair value of warrants is charged to the share premium as it represents the cost of equity shares issued with subsequent movement in fair value charged to the consolidated statement of profit or loss and other comprehensive income.

*Notes forming part of the financial statements for the year ended 31 December 2014 (continued)*

## 16 Other financial liabilities (continued)

The fair value movement of the warrants was calculated using the Black-Scholes model with the following inputs:

| | December 2014 | December 2013 | September 2013 |
|---|---|---|---|
| Share price | £1.00 | £2.00 | £2.00 |
| Exercise price | £3.00 | £3.00 | £3.00 |
| Expected volatility | 85 % | 80 % | 80 % |
| Expected life | 0.67 years | 1.67 years | 2 years |
| Risk free rate | 0.24 % | 0.64 % | 0.69 % |
| Expected dividends | 0 % | 0 % | 0 % |
| Estimated fair value | £0.03 | £0.51 | £0.58 |

The fair value gain in other financial liabilities during the year was US$2,107,000 (2013: US$160,000).

### (b) Convertible debt

The Company in April 2014 entered into a short term loan facility with its leading shareholder Resource Capital Funds (RCF) for US$3million which was fully drawn down in May 2014. Interest was payable at 10 % per annum and was repayable by 3 October 2014. If the Company completed an equity financing before the repayment date RCF had the option to convert the loan and interest into new ordinary shares at the price of the equity raising. RCF also had the option to elect that fees due in respect of the loan are satisfied by the issue of new ordinary shares at a price of £2 per share. The loan was secured by way of a charge over Toro's shares in its wholly owned subsidiary Bambuk Minerals Ltd which owns 100 % of the shares in Mako Exploration Company S.A.

The value of the liability component and the equity conversion component were determined at the date the facility was drawn down. The fair value of the liability component at inception was calculated using a market interest rate for an equivalent instrument without conversion option. The discount rate applied was 15 %.

Toro Gold issued 17,674 shares in July 2014 at £2.00 per share to RCF in respect of the loan establishment fees. In October 2014, the convertible loan principal and interest payable were converted into 1,896,088 Toro Gold shares at £1.00 per share (see Note 18).

Interest and other finance expense on the convertible debt during the year was US$422,000 (2013: Nil).

## 17 Financial risk management

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 2.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

### Principal financial instruments

The principal financial instruments used by the Group from which financial instrument risk arises, are as follows:

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| **Loans and receivables at amortised cost** | | |
| Trade and other receivables | **23** | 35 |
| Cash and cash equivalents | **2,987** | 5,766 |
| **Financial liabilities at fair value through profit or loss** | | |
| Other financial liabilities | **104** | 2,211 |
| **Financial liabilities held at amortised cost** | | |
| Trade and other payables | **1,461** | 1,120 |

## 17 Financial risk management (continued)

### General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and retains ultimate responsibility for them.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

### Liquidity Risk

The main financial risk facing the Group is the availability of adequate funding. In keeping with similar sized exploration groups, its continued future operations depend on the ability to raise sufficient working capital. The Group finances itself through the issue of equity share capital and borrowings. Management monitors its cash and funding requirements through the use of ongoing cash forecasts.

Cash is held on short term deposits so that it is readily available for the payment of liabilities.

### Credit Risk

Credit risk is the risk that a counterparty fails to discharge its obligations in respect of a financial instrument. The Group has no significant financial assets except for cash and cash equivalents.

In relation to its cash and cash equivalents, the Group has to manage its currency exposures and the credit risk associated with the credit quality of the financial institutions in which the Group maintains its cash resources. The Group ensures that cash balances are held with reputable financial institutions within the countries in which it operates.

### Currency Risk

Foreign exchange risk arises because the Group is operating in parts of the world where the primary currency is not US Dollars and therefore foreign exchange risk arises on transactions entered into in a currency other than the functional currency of US Dollars.

The Group primarily settles its liabilities in Sterling, US Dollars or Euros. Cash balances by currency as at 31 December 2014 are set out in note 14. The impact of a 10% favourable movement in the Sterling and Euro exchange rate to the US Dollar would lead to a foreign exchange gain of approximately US$224,000, and a 10% adverse movement would lead to a corresponding loss.

The Group has no formal policy in respect of foreign exchange risk. Currency exposure is reviewed on an ad hoc basis. Unrealised gains and losses arising on the translation of monetary assets and liabilities arising in currencies other than the US Dollar are included within the consolidated statement of profit or loss and other comprehensive income.

### Capital

The Group seeks to maintain sufficient capital to enable its growth and safeguard its ability to continue as a going concern in order to provide returns for shareholders and to fund exploration opportunities.

### Fair Value

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available fair values have been calculated by discounting expected cash flows at prevailing interest rates and by applying year end exchange rates.

The fair value of short-term deposits, loans and overdrafts with a maturity of less than one year is assumed to approximate to their book values.

*Notes forming part of the financial statements for the year ended 31 December 2014 (continued)*

## 17 Financial risk management (continued)

**Financial Instruments Hierarchy**

Other financial liability is measured on initial recognition and subsequently at fair value by reference to the probability of outcome and categorised as level 3 measurement:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices 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 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

Level 3 fair value measurement of warrant liabilities were:

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| At 1 January | **2,211** | - |
| Additions (note 16) | **-** | 2,371 |
| Fair value adjustment (note 7) | **(2,107)** | (160) |
| | **104** | 2,211 |

The table below shows the impact of a reasonably possible change in one significant unobservable input, holding other inputs constant, of level 3 financial instruments.

*Warrant liabilities (level 3)*

| | | Profit or loss and other comprehensive income | | Statement of financial position | |
|---|---|---|---|---|---|
| | Market movement | Increase US'000 | Decrease US$'000 | Increase US'000 | Decrease US$'000 |
| *Share price* | *+10%* | - | *46* | - | *46* |
| | *-10%* | *36* | - | *36* | - |
| *Share price volatility* | *+10%* | - | *42* | - | *42* |
| | *-10%* | *54* | - | *54* | - |
| *Risk-free rate* | *+20 basis points* | - | *1* | - | *1* |
| | *-20 basis points* | *1* | - | *1* | - |
| *GBP/USD exchange rate* | *+10%* | - | *10* | - | *10* |
| | *-10%* | *10* | - | *10* | - |

## 18 Share capital

As at 31 December 2014, the total issued share capital of Toro Gold is comprised of 23,812,578 ordinary shares. The shares have a nominal value of £0.01 per ordinary share. The Company's authorised share capital is unlimited.

| | Number of ordinary shares | Share capital US$'000 | Share Premium US$'000 | Total US$'000 |
|---|---|---|---|---|
| At 31 December 2012 | 13,519,468 | 214 | 62,000 | 62,214 |
| Issue of shares – cash, net of issue costs | 2,644,397 | 40 | 7,632 | 7,672 |
| – warrants issued | - | - | (2,371) | (2,371) |
| **At 31 December 2013** | **16,163,865** | **254** | **67,261** | **67,515** |
| Shares issued for cash, net of issue costs | 5,734,951 | 95 | 9,039 | 9,134 |
| Shares issued for loan conversion | 1,913,762 | 32 | 3,204 | 3,236 |
| **At 31 December 2014** | **23,812,578** | **381** | **79,504** | **79,885** |

In September 2014, Toro Gold completed a private placement of 5,734,951 ordinary shares at £1.00 per share for net cash proceeds of US$9,134,000. The Company also issued a total of 1,913,762 shares to Resource Capital Funds (RCF) in respect of the US$3million short term convertible loan facility entered into in April 2014. This comprised of 17,674 shares issued at £2.00 per share in lieu of loan establishment fees and 1,896,088 shares at £1.00 per share issued on conversion of the loan principal and interest.

As at 31 December 2014 there were options and warrants in issue over 4,597,619 (2013: 3,896,593) shares.

## 19 Share based payments

### (a) Share Options

In April 2014 the Company granted 1,690,000 share options to certain directors and employees of the Company. These options have an exercise price of £0.01p per share and vest on completion of certain performance conditions as determined by the Board, and are capable of being exercised up to 10 years from grant.

In 2014, no options were exercised (2013: Nil) and the Company cancelled 733,974 options during the year (2013: Nil).

At 31 December 2014 a total of 1,928,222 (2013: 972,196) options were outstanding of which 407,222 (2013: 972,196) were exercisable. The weighted average remaining contractual life of the options in issue as at 31 December 2014 was 8.36 years with a range of exercise prices from £0.01 to £4.75.

*Notes forming part of the financial statements for the year ended 31 December 2014 (continued)*

## 19 Share based payments (continued)

Options issued to date were valued using the Black-Scholes model using the following inputs:

| Date of grant | Share price | Exercise price | Expected volatility | Expected life | Risk free rate | Expected dividends | Estimated fair value |
|---|---|---|---|---|---|---|---|
| November 2009 | £1.50 | £1.75 | 50 % | 5 years | 2.73 % | 0 % | £0.57 |
| February 2011 | £2.00 | £2.25 | 100 % | 5 years | 2.89 % | 0 % | £1.33 |
| June 2011 | £3.00 | £3.25 | 100 % | 5 years | 2.10 % | 0 % | £2.00 |
| February 2012 | £3.00 | £3.75 | 100 % | 5 years | 1.07 % | 0 % | £1.93 |
| November 2012 | £3.50 | £4.75 | 100 % | 5 years | 0.68 % | 0 % | £2.20 |
| April 2014 | £1.50 | £0.01 | 89 % | 5 years | 1.82 % | 0 % | £1.34 |

**(b) Warrants**

During 2014 the Company issued 25,000 (2013: 2,644,397) warrants and no warrants were exercised (2013: Nil). 280,000 warrants lapsed during the year (2013: Nil).

As at 31 December 2014 a total of 2,669,397 (2013: 2,924,397) warrants were outstanding and exercisable. The weighted average remaining contractual life of the warrants in issue as at 31 December 2014 was 0.69 years with an exercise price of £3.00.

Outstanding warrants as at 31 December 2014 were valued using the Black-Scholes model using the following inputs:

| Date of grant | Share price | Exercise price | Expected volatility | Expected life | Risk free rate | Expected dividends | Estimated fair value |
|---|---|---|---|---|---|---|---|
| September 2013 | £1.00 | £3.00 | 85 % | 0.7 years | 0.24 % | 0 % | £0.03 |
| February 2014 | £1.50 | £3.00 | 87 % | 3 years | 0.16 % | 0 % | £0.54 |

## 19 Share based payments and warrants (continued)

**(c) Joint Share Ownership Plan**

The Company implemented a Joint Share Ownership Plan (JSOP) in November 2012 whereby the Remuneration Committee invited certain directors and employees to enter into an agreement with the Toro Gold Employee Benefit Trust to acquire a number of ordinary shares in the Company on a joint basis as tenants in common.

In November 2012 the Company issued 195,000 shares under the terms of the JSOP at £3.50 per share with a hurdle price of £4.75. All the 195,000 shares issued under the JSOP scheme were repurchased by the Company in April 2014.

## 20 Contingent liabilities and commitments

The Group had no contingent liabilities or capital commitments.

## 21 Commitments under operating leases

As at 31 December 2014, the Group had commitments under non-cancellable operating leases as set out below:

| | Land and buildings 2014 US$ | Land and Buildings 2013 US$ |
|---|---|---|
| Payments due: | | |
| Within one year | **150,517** | 159,401 |
| In two to five years | **-** | 159,401 |
| | **150,517** | 318,802 |

*Notes forming part of the financial statements for the year ended 31 December 2014 (continued)*

## 22 Related party transactions

In November 2013 Toro Gold sold its 100% interest in Toro East Africa Limited to Mr Fetherston a director of the company for US$1 resulting in a loss on sale of US$22,000 (note 9).

Pursuant to an agreement dated 7 April 2009, Artemis Trustees Limited, a company of which Mr Robert Sinclair is a Director and ultimately a shareholder, was appointed by the Company to provide administration and secretarial services. Fees are chargeable on a time spent basis, calculated by reference to time, work type and skills involved in providing the services. Fees invoiced during the year totalled US$106,000 (2013: US$103,000) of which US$28,000 was outstanding at the year end and paid in March 2015.

PilotHole Pty Limited (PilotHole) is a company where Martin Reed is a Director. During the year ended 31 December 2014, PilotHole received US$93,000 (2013: Nil) for consultancy services provided to the Company.

## 23 Events after the reporting date

The Company in March 2015 entered into and fully drew down a short term loan facility with one of its principal shareholders, Tembo Capital (Tembo), for US$2million. The loan bears interest at 10% per annum and is repayable by 31 August 2015. If the Company completes an equity financing before the repayment date Tembo has the option to convert the loan into new ordinary shares at the price of the equity raising. Tembo also has the option to elect that interest and fees due in respect of the loan are satisfied by the issue of new ordinary shares at a price of £1 per share. The loan was repaid in June 2015.

In June 2015 Toro signed a secured Convertible Bridge Loan Agreement for US$15million with the Company's three largest shareholders, RCF, Tembo and Macquarie Bank (the "Lenders"). The loan bears interest at 10% per annum and is repayable by 4 June 2016. The Lenders have the option to convert the loan into new ordinary shares under certain conversion events. The Lenders may also elect to have any fees and interest payable under the Agreement to be satisfied by the issue of new ordinary shares.

In March 2015 the Company signed an agreement with Predictive Discovery Limited ("PDI") under which Toro Gold can earn up to a 90% interest in PDI's Côte d'Ivoire subsidiary on the completion of certain milestones (see page 9).

TORO GOLD

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