



# SEMAFO Inc.

Management's Discussion and Analysis  
March 31, 2015

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## Management's Discussion and Analysis

SEMAFO Inc. ("SEMAFO" or the "Corporation") is a Canadian-based mining company with gold production and exploration activities in West Africa. The Corporation operates the Mana Mine in Burkina Faso, which includes the high-grade satellite deposits of Siou and Fofina, and is developing the advanced gold deposit of Natougou. SEMAFO is committed to evolve in a conscientious manner to become a major player in its geographical area of interest. SEMAFO's strategic focus is to maximize shareholder value by effectively managing its existing assets as well as pursuing organic and strategic growth opportunities.

This Management's Discussion and Analysis ("MD&A") provides an analysis of continuing operations, unless otherwise specified, to enable readers to assess material changes in financial condition and results of operations for the three-month period ended March 31, 2015 compared to the previous year. This MD&A, prepared as of May 12, 2015, is intended to complement and supplement our Condensed Interim Consolidated Financial Statements (the "financial statements") as at March 31, 2015. Our financial statements and this MD&A are intended to provide investors with a reasonable basis for assessing our results of operation and our financial performance.

Our financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"). All dollar amounts contained in this MD&A are expressed in US dollars, unless otherwise specified.

This MD&A contains forward-looking statements. Particular attention should be given to the risk factors described in the "Risks and Uncertainties" section and to the "Forward-Looking Statements" section of this document.

Where we say "we", "us", "our", the "Corporation" or "SEMAFO", we mean SEMAFO Inc. or SEMAFO Inc. and/or one or more or all of its subsidiaries, as it may apply.

### 1. Financial and Operating Highlights

	Three-month period ended March 31,	
	2015	2014
Gold ounces produced .....	65,200	35,100
Gold ounces sold .....	60,600	29,400
<b>(in thousands of dollars, except amounts per ounce, per tonne and per share)</b>		
<b>From Continuing Operations</b>		
Revenues – Gold sales .....	74,016	38,473
Operating income (loss) .....	11,207	(14,679)
Net loss from continuing operations attributable to equity shareholders .....	(8,114)	(12,943)
Basic earnings (loss) per share from continuing operations .....	(0.03)	(0.04)
Diluted earnings (loss) per share from continuing operations .....	(0.03)	(0.04)
Adjusted net income (loss) from continuing operations attributable to equity shareholders <sup>1</sup> .....	8,210	(12,828)
Adjusted basic earnings (loss) per share from continuing operations <sup>1</sup> .....	0.03	(0.04)
Cash flows from operating activities from continuing operations <sup>2</sup> .....	32,553	2,142
Operating cash flows per share from continuing operations <sup>1</sup> .....	0.12	0.01
Average realized selling price (per ounce) .....	1,221	1,309
Cash operating cost (per tonne processed) <sup>1</sup> .....	54	52
Total cash cost (per ounce sold) <sup>1</sup> .....	528	1,088
All-in sustaining cost (per ounce sold) <sup>1</sup> .....	646	1,410

<sup>1</sup> Adjusted net income attributable to equity shareholders, adjusted basic earnings per share, operating cash flows per share, cash operating cost, total cash cost and all-in sustaining cost are non-IFRS financial performance measures with no standard definition under IFRS. See the "Non-IFRS financial measures from continuing operations" section of this MD&A, note 16.

<sup>2</sup> Cash flows from operating activities from continuing operations exclude changes in non-cash working capital items.

### FIRST QUARTER 2015 IN REVIEW

- Gold production of 65,200 ounces, an 86% increase compared to the same period in 2014
- Gold sales of \$74.0 million, a 92% increase compared to the same period in 2014
- A 51% decrease in total cash cost<sup>1</sup> to \$528 per ounce compared to the same period in 2014 and a 54% decrease in all-in sustaining cost<sup>1</sup>
- Operating income of \$11.2 million, compared to an operating loss of \$14.7 million for the same period in 2014
- Net loss attributable to equity shareholders of \$8.1 million or \$0.03 per share compared to net loss from continuing operations of \$12.9 million or \$0.04 per share for the same period in 2014.
- Adjusted net income from continuing operations attributable to equity shareholders<sup>1</sup> of \$8.2 million or \$0.03 per share<sup>1</sup> compared to net loss of \$12.8 million
- Cash flows from operating activities<sup>2</sup> of \$32.6 million or \$0.12 per share<sup>1</sup> compared to \$2.1 million or \$0.01 per share for the same period in 2014
- Successful replacement of the new SAG mill shell on time at Mana
- Acquisition of Orbis Gold Limited
- Indicated resources of 1.1 million ounces of gold at Natougou advanced deposit
- Completion of a bought deal private placement of common shares for aggregate gross proceeds of \$46.5 million
- New long-term debt for aggregate gross proceeds of \$90 million

<sup>1</sup> Total cash cost, all-in sustaining cost, adjusted net income attributable to equity shareholders, adjusted basic earnings per share and operating cash flows per share are non-IFRS financial performance measures with no standard definition under IFRS. See the "Non-IFRS financial measures from continuing operations" section of this MD&A, note 16.

<sup>2</sup> Cash flows from operating activities from continuing operations exclude changes in non-cash working capital items.

## 2. Key Economic Factors

### Price of Gold

During the three-month period ended March 31, 2015, the price of gold, based on the London Gold Fix PM, fluctuated from a high of \$1,296 to a low of \$1,147 per ounce. The average market gold price in the first quarter of 2015 was \$1,218 per ounce compared to \$1,293 per ounce for the same period in 2014, representing a decrease of \$75 or 6%.

	2015	2014
	Q1	Q1
(in dollars per ounce)		
Average London Gold Fix .....	1,218	1,293
Average realized selling price .....	1,221	1,309

### Cost Pressures

We are affected by industry-wide pressures on development and operating costs. Since our mining activities are energy intensive, a change in fuel price can have a significant impact on our operations and associated financial results. As a benchmark for fuel costs, the Brent Crude price averaged \$56 per barrel in the first quarter of 2015 compared to \$108 per barrel in the first quarter of 2014.

We purchase our fuel exclusively from the government of Burkina Faso at a price fixed by decree that reflects market price fluctuations within a time lag. The price fixed by decree was 666.79 FCFA (equivalent to \$1.09) per litre as at March 31, 2015 compared to 738.93 FCFA (equivalent to \$1.36) as at December 31, 2014.

### Foreign Currencies

Our mining operations and exploration activities are carried out in West Africa. Accordingly, portions of our operating costs and capital expenditures are denominated in foreign currencies, in particular the Euro. The FCFA currency is fixed against the Euro.

During the three-month period ended March 31, 2015, the US dollar was stronger relative to the Euro when compared to the same period in 2014. Therefore, in the first quarter of 2015, the foreign exchange fluctuation positively impacted our total cash cost<sup>1</sup> and our general and administrative cost, but created an unrealized foreign exchange loss on our net monetary assets as at March 31, 2015.

Exchange rates are as follows:

	CAD / USD \$		EUR / USD \$	
	2015	2014	2015	2014
December 31 (closing) .....	—	1.1601	—	0.8264
March 31 (closing) .....	<b>1.2683</b>	1.1053	<b>0.9310</b>	0.7259
First quarter (average) .....	<b>1.2370</b>	1.1018	<b>0.8852</b>	0.7297
As at May 11 (closing) .....	<b>1.2105</b>	—	<b>0.8975</b>	—

<sup>1</sup> Total cash cost is a non-IFRS financial performance measure with no standard definition under IFRS. See the "Non-IFRS financial measures from continuing operations" section of this MD&A, note 16.

## 3. Consolidated Results and Mining Operations from Continuing Operations

### Operating Highlights from Continuing Operations

	Three-month period ended March 31,		
	2015	2014	Variation
Gold ounces produced .....	<b>65,200</b>	35,100	86%
Gold ounces sold .....	<b>60,600</b>	29,400	106%
<b>(in thousands of dollars, except amounts per share)</b>			
Revenues – Gold sales .....	<b>74,016</b>	38,473	92%
Mining operation expenses (excluding government royalties) .....	<b>29,063</b>	30,216	(4%)
Government royalties .....	<b>2,933</b>	1,768	66%
Operating income (loss) .....	<b>11,207</b>	(14,679)	–
Finance costs .....	<b>3,039</b>	256	1,087%
Foreign exchange loss .....	<b>6,281</b>	104	5,939%
Income tax expense (recovery) .....	<b>9,867</b>	(1,395)	–
Net loss from continuing operations			
attributable to equity shareholders .....	<b>(8,114)</b>	(12,943)	37%
Basic loss per share from continuing operations .....	<b>(0.03)</b>	(0.04)	25%
Diluted loss per share from continuing operations .....	<b>(0.03)</b>	(0.04)	25%
Adjusted net income (loss) from continuing operations			
attributable to equity shareholders <sup>1</sup> .....	<b>8,210</b>	(12,828)	–
Adjusted basic earnings (loss) per share from continuing operations <sup>1</sup> ...	<b>0.03</b>	(0.04)	–
Cash flows from operating activities from continuing operations <sup>2</sup> .....	<b>32,553</b>	2,142	1,420%
Operating cash flows per share from continuing operations <sup>1</sup> .....	<b>0.12</b>	0.01	1,100%

### First Quarter 2015 v. First Quarter 2014

- During the first quarter of 2015, gold sales amounted to \$74,016,000 compared to \$38,473,000 for the same period in 2014. The 92% increase is attributable to higher volume of gold sold following production from the high-grade Siou and Fofina deposits. The variation between gold ounces sold and gold ounces produced during the quarter is due to the timing of shipments.
- Higher government royalties are a direct result of higher gold ounces sold.
- The increase in operating income compared to the same period in 2014 is due to higher revenues.
- During the first quarter of 2015, following the cancellation of a Credit Facility, we wrote-off financing fees of \$2,520,000, which were capitalized as other non-current assets in the consolidated financial position as at December 31, 2014.
- The foreign exchange loss increased to \$6,281,000 due to the revaluation of our monetary assets nominated in foreign currencies following the strengthening of the US dollar.
- The increase in income tax expense in the first quarter of 2015 compared to the same period in 2014 is due to higher taxable income at Mana Mine and the strengthening of the US dollar, which reduced the tax base of mining assets in foreign jurisdictions and lowered future tax deductions when converted into US dollars. These non-cash items amount to \$7,523,000 and are not indicative of the economic value of the underlying tax pools that may be used to reduce cash income taxes in the future.
- Cash flow from operating activities from continuing operations<sup>2</sup> reached \$32,553,000 in the first quarter of 2015 due to the increase of operating income.

<sup>1</sup> Adjusted net income attributable to equity shareholders, adjusted basic earnings per share and operating cash flows per share are non-IFRS financial performance measures with no standard definition under IFRS. See the "Non-IFRS financial measures from continuing operations" section of this MD&A, note 16.

<sup>2</sup> Cash flow from operating activities from continuing operations excludes changes in non-cash working capital items.

## 4. Operating Income (Loss) by Segment

	Three-month period ended March 31,		
	2015	2014	Variation
<b>(in thousands of dollars)</b>			
Mana Mine, Burkina Faso .....	<b>17,005</b>	(7,608)	—
Natougou, Burkina Faso .....	—	—	—
Other exploration .....	—	—	—
Corporate and other .....	<b>(5,798)</b>	(7,071)	18%
	<b>11,207</b>	(14,679)	—

Composition of the reportable segments was modified for the first quarter of 2015 in order to add a new segment, “Natougou”, which represents the main property acquired through the acquisition of Orbis Gold Limited<sup>1</sup> (“Orbis”).

<sup>1</sup> Please refer to note 5 of the financial statements.

## 4. Operating Income (Loss) by Segment (continued)

### Mana, Burkina Faso

#### Mining Operations

	Three-month period ended March 31,		
	2015	2014	Variation
<b>Operating Data</b>			
Ore mined (tonnes) .....	749,800	467,200	60%
Ore processed (tonnes) .....	537,300	642,000	(16%)
Waste mined (tonnes) .....	6,562,800	3,449,300	90%
Operational stripping ratio .....	8.8	7.4	19%
Head grade (g/t) .....	4.09	1.93	112%
Recovery (%) .....	92	88	5%
Gold ounces produced .....	65,200	35,100	86%
Gold ounces sold .....	60,600	29,400	106%
<b>Capitalized Stripping Activity</b>			
Wasted material – Siou (tonnes) .....	1,468,300	3,857,600	(62%)
Wasted material – Fofina (tonnes) .....	745,700	423,300	76%
Wasted material – Wona-Kona (tonnes) .....	–	666,900	(100%)
	2,214,000	4,947,800	(55%)
<b>Financial Data (in thousands of dollars)</b>			
Revenues – Gold sales .....	74,016	38,473	92%
Mining operations expenses (excluding government royalties) .....	29,063	30,216	(4%)
Government royalties .....	2,933	1,768	66%
Depreciation of property, plant and equipment .....	24,024	12,968	85%
General and administrative .....	665	1,129	(41%)
Corporate social responsibility expenses .....	326	–	100%
Segment operating income (loss) .....	17,005	(7,608)	–
<b>Statistics (in dollars)</b>			
Average realized selling price (per ounce) .....	1,221	1,309	(7%)
Cash operating cost (per tonne processed) <sup>1</sup> .....	54	52	4%
Total cash cost (per ounce sold) <sup>1</sup> .....	528	1,088	(51%)
All-in sustaining cost (per ounce sold) <sup>1</sup> .....	646	1,410	(54%)
Depreciation (per ounce sold) <sup>2</sup> .....	396	441	(10%)

<sup>1</sup> Cash operating cost, total cash cost and all-in sustaining cost are a non-IFRS financial performance measure with no standard definition under IFRS. See the “Non-IFRS financial performance measures from continuing operations” section of this MD&A, note 16.

<sup>2</sup> Depreciation per ounce sold is a non-IFRS financial performance measure with no standard definition under IFRS and represents the depreciation expense per ounce sold.



## 4. Operating Income (Loss) by Segment (continued)

### Mana, Burkina Faso (continued)

#### Mining Operations (continued)

Following a planned five-week shutdown of the SAG mill, we reported first quarter 2015 production of 65,200 ounces at a total cash cost<sup>1</sup> of \$528 per ounce sold and all-in sustaining cost<sup>1</sup> of \$646 per ounce sold at our Mana Mine. These costs per ounce represent year-on-year decreases of 51% and 54%, respectively, that are mainly attributable to the contribution of high-grade ore from the Siou and Fofina deposits.

#### First Quarter 2015 v. First Quarter 2014

- For the three-month period ended March 31, 2015, more ore was mined compared to the same period in 2014 when the mine plan sequence was modified in order to reassign a portion of the Wona-Kona mining fleet to the development of the Siou and Fofina deposits in the first quarter of 2014.
- The decrease in ore processed is due to the processing of ore through the secondary ball mill during the five-week shutdown of the SAG mill.
- The increase in head grade in the first quarter of 2015 reflects higher grade ore processed from the Fofina and Siou pits, compared to ore sourced mainly from Wona-Kona in the same period in 2014.
- The increase in gold ounces produced and sold is a direct result of the 112% higher head grade.
- The depreciation of property, plant and equipment increased by 85% as a result of the increase in gold ounces produced.
- The decrease in general and administrative expenses for the three-month period ended March 31, 2015, compared to the same period in 2014, is mainly due to ongoing optimization efforts.

#### Replacement of the SAG Mill Shell at Mana

During the first quarter of 2015, replacement of the SAG mill shell was successfully completed on time and the Mana plant is currently processing over 7,200 tonnes per day.

#### Connection to the National Power Grid

Commissioning of on-site equipment and substations was completed as planned in the first quarter of 2015. Presently, we are engaged in discussions with Sonabel, the national electricity company in Burkina Faso, regarding the electricity supply. Sonabel is unable to deliver the requisite 8 MW to fully power the Mana Mine because of high levels of consumer demand driven by the current hot dry season, particularly in Ouagadougou.

#### Corporate Social Responsibility

For the three-month period ended March 31, 2015, corporate social responsibility expenses, representing contributions made to *Fondation SEMAFO*, totalled \$326,000 (2014: nil).

More than half of the corporate social responsibility ("CSR") expenses were invested in community-support measures such as the construction of fresh water wells and a multi-functional platform. The bulk of the remaining *Fondation SEMAFO* funding was dedicated to bolstering education in Burkina Faso through the construction of school infrastructures and to overseeing income-generating projects, such as sesame and paprika crop husbandry, in the local communities.

In parallel with *Fondation SEMAFO* activities, a series of information and awareness sessions was carried out by mine management during the quarter in order to maintain an atmosphere of mutual confidence between the mine and administrative, religious and traditional authorities in the villages. In addition to providing financial support for the practice of local customs, we repaired hand pump wells, built roads between villages and evacuated patients with the mine ambulance to hospital.

Our commitment will also be extended to our newly acquired Natougou gold deposit. In February, the general manager of *Fondation SEMAFO* and the CSR team paid an initial visit to the villages surrounding the Natougou deposit in order to assess community needs.

<sup>1</sup> Total cash cost and all-in sustaining cost are a non-IFRS financial performance measure with no standard definition under IFRS. See the "Non-IFRS financial performance measures from continuing operations" section of this MD&A, note 16.

### 4. Operating Income (Loss) by Segment (continued)

#### Mana, Burkina Faso (continued)

##### Exploration – Mana Project, Burkina Faso

An initial exploration program of \$12 million is ongoing on the Mana properties, mainly in the vicinity of the Mana processing plant, the Siou sector, Pompoi, and in the north, on the Saoura and Massala properties.

To date, the RC program at Mana has tested targets located near the Fofina and Nyafé deposits (45 holes), and along the Siou Shear Zone (34 holes). In addition, a 30-hole (4,524-meter) program was completed on target B4, located on the Bombouela permit. Target B4 is characterized by a relatively weak auger drilling anomaly interpreted to sit along a potential splay off the Wona Deformation Corridor, which affects the western limit of the Houndé Greenstone Belt. The splay within the B4 area appears to follow a north-striking unit of volcanic rocks hosted in a thick sequence of clastic sedimentary rocks. Three short sections were drilled to test the stronger auger anomalies obtained. Assay results for the RC holes remain pending.

#### Natougou, Burkina Faso

During the first quarter of 2015, we acquired Orbis. The acquisition comprises a strong portfolio of mining projects in Burkina Faso led by the Natougou advanced gold project, located some 320 kilometers east of Ouagadougou, the capital city of Burkina Faso. Natougou represents one of the highest grade open-pittable projects in West Africa. The Orbis acquisition includes 13 permits covering more than 3,000 square kilometers in Burkina Faso. Nabanga, the second-most important gold project in Orbis' portfolio in Burkina Faso, is located approximately 250 kilometers southeast of Natougou.

##### Natougou Feasibility Study Updates

A complete review of all preliminary results on the ongoing Definitive Feasibility Study ("DFS") has been completed. The following mandates were awarded for completion of the DFS:

- **Lycopodium Minerals** – Definitive Feasibility Study including processing design, leach and elution circuits, power supply options, metallurgical work programs, project scheduling and reporting
- **Golder Associates** – ground water exploration program, geotechnical assessment of open pit wall stability
- **Knight Piésold Consulting** – geotechnical infrastructure, geochemical soil testing, water balance, trade-off study and tailings site facility optimization
- **WSP Canada** – Environmental and Social Impact Assessment (ESIA) and Resettlement Action Plan (RAP)
- **Snowden Mining Industry** – resource model
- **AMC Consultants** – NI 43-101 reserve model, pit optimization and life of mine (LOM) sequencing

The DFS is scheduled for completion early in the second quarter of 2016 and envisages a base case scenario of a 4,000-tonne-per-day processing plant. A budget estimate of \$12.5 million has been established in order to complete the DFS that includes:

- 6,000 meters of condemnation drilling, which will be completed in the second quarter of 2015
- 22,000 meters of in-fill drilling to convert in-pit inferred resources to indicated category, scheduled for completion in the second quarter of 2015
- 17,000-meter in-fill drill program, designed to convert a portion of the indicated resources to the measured category, that will be completed in the third quarter of 2015
- 10,000 meters of drilling on proximal related structures, with expected completion in the third quarter of 2015

## 4. Operating Income (Loss) by Segment (continued)

### Natougou, Burkina Faso (continued)

#### Resources Conversion from JORC to NI 43-101<sup>1</sup>

On March 31, 2015, we announced that Snowden Mining Industry Consultants Pty Ltd. had completed a NI 43-101 compliant mineral resource estimate for our advanced gold deposit of Natougou in the Tapoa Permit Group, in Burkina Faso. Indicated mineral resources totaled 5.79 million tonnes at a grade of 5.87 g/t Au for 1.1 million ounces of contained gold. Inferred resources on the Natougou deposit stand at 3.93 million tonnes at a grade of 3.49 g/t Au for 0.44 million ounces of contained gold.

#### Natougou Mineral Resource, Reported above a 0.77 g/t Au Cut-off Grade

Classification	Tonnes Mt	Grade g/t	Contained Ounces 000 oz
Indicated <sup>2</sup>	5.79	5.87	1,092
Inferred <sup>3</sup>	3.93	3.49	442

The mineral resource has been limited to within a pit shell, based on a gold price of \$1,300 per ounce. Metallurgical test work was completed in 2013 by Lycopodium Minerals QLD Pty Ltd.

### Other Exploration

#### Exploration – Banfora Property, Burkina Faso

In 2014, we acquired an extensive exploration land holding in the Banfora Gold Belt situated some 200 kilometers south west of Mana through the signature of farm-in agreements on ten permits and the acquisition of five permits. The 15 permits cover a total surface area of 1,600 square kilometers. Under the terms of the agreements signed with junior exploration companies, we have three-year working rights and the option to earn interest up to 90% in the farm-in permits of Banfora.

We have assigned an initial exploration budget of \$6 million to pursue exploration activities on the Banfora properties in 2015. The 140,000-meter auger drill program, which will be carried out over a 400 meter by 25 meter grid, is focusing on the east margin of the Banfora Greenstone Belt, notably on the Mouro Shear trend containing the Mouro South gold workings. Four auger drills are currently in operation on the Yeya I permit and in the north on the Kapogouan, Kongoroba and Dabokuy permits on the Mouro Shear trend.

The 2015 RC drilling program is designed to follow up on gold anomalies identified in the 2014 auger drill program on five permits. In the first quarter, a total of 9,487 meters of RC drilling was completed in 63 holes on the Tondura permit in the south west and on the Kapogouan permit on the Mouro Shear trend. One RC drill rig remains active on the Kapogouan permit. Assay results for the RC holes remain pending.

#### Banfora Reveals a 30-Kilometer Geochemical Anomaly Trend

Exploration work conducted at Banfora in the first quarter of 2015 was mainly carried out on a property under farm-in agreement with AusQuest Limited and primarily focused on the northeast (NE) group of permits that track the eastern edge of the Banfora Greenstone Belt. As shown in Figure 1, auger sampling results have identified a major NE trending anomaly over a strike length of more than 30 kilometers. The trend, dubbed the Mouro Trend, appears to follow the eastern edge of the belt at the contact with various felsic to intermediate intrusive rocks, and related east-northeast trending splays appear to occur along the main trend. Towards the south, a north-south trending anomalous trend is observed, which also corresponds to a change in the direction of the contact between the granitic intrusive and the sediments. A regional scale deformation zone associated with this contact has also been mapped.

RC drilling along the Mouro Trend commenced on March 1, 2015. To date, 30 holes along two sections (200 meters apart) have been drilled immediately below the artisanal mining area with all assays pending.

We plan to continue drilling along the corridor and its associated splays in order to better understand the controls of the mineralization and identify the most promising areas for follow-up.

<sup>1</sup> The mineral resource for the Natougou gold deposit, Tapoa Permit Group was completed by John Graindorge of Snowden Mining Industry Consultants Pty Ltd, with the metallurgical portion of the technical report compiled by Harald Muller of Snowden Mining Industry Consultants Pty Ltd. The mineral resource was estimated as at March 30, 2015 in compliance with NI 43-101 for Standard of disclosure for Mineral Projects as adopted by the Canadian Securities Regulators and was supervised by Michel Crevier P.Geo MScA, Vice-President, Exploration and Mine Geology and SEMAFO's Qualified Person.

<sup>2</sup> All indicated resources are contained in fresh rock.

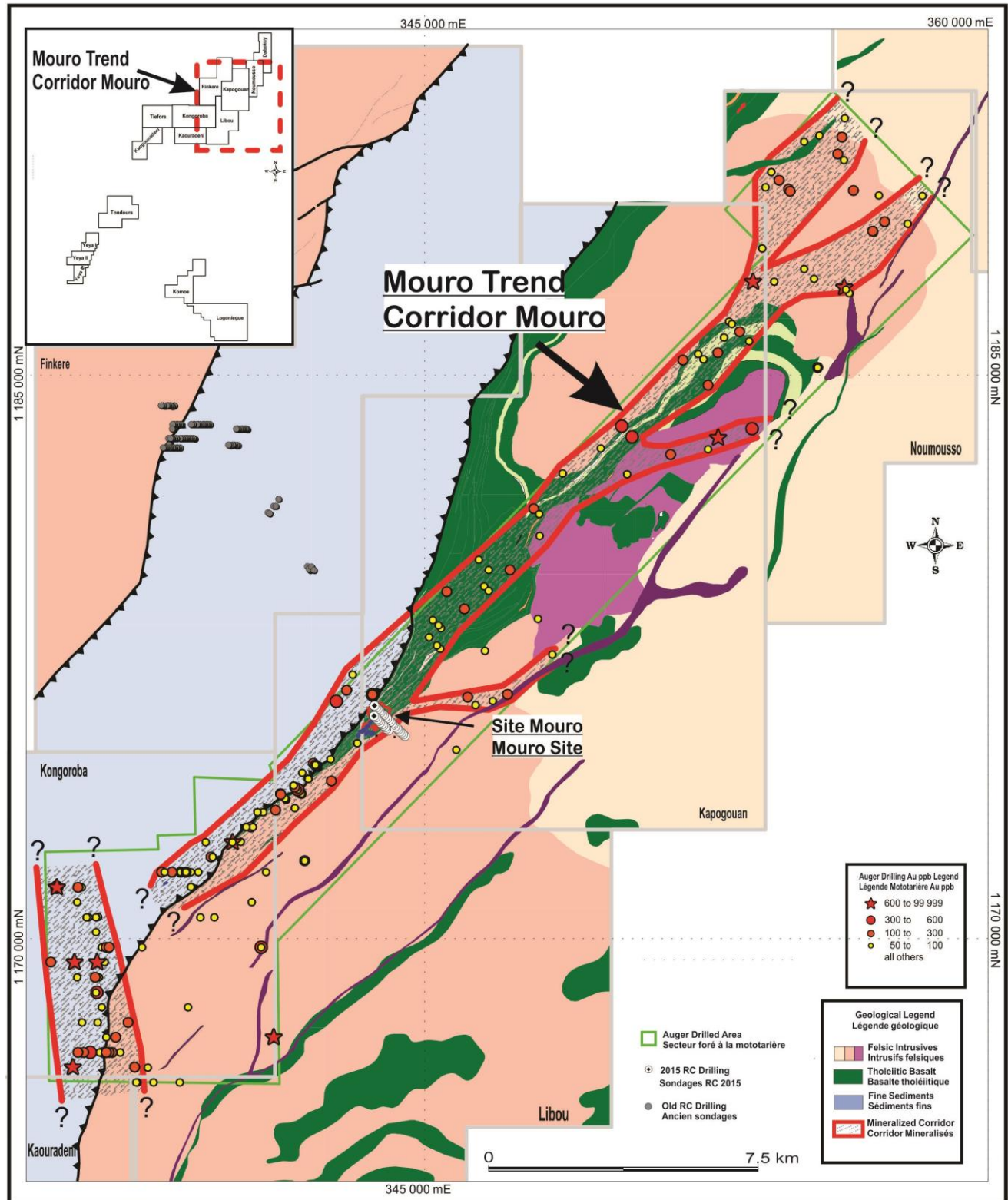
<sup>3</sup> Eighty-three percent of the inferred resources are contained in fresh rock.

#### 4. Operating Income (Loss) by Segment (continued)

##### Other Exploration (continued)

##### Exploration – Banfora Property, Burkina Faso (continued)

Figure 1 – Banfora Property



## 4. Operating Income (Loss) by Segment (continued)

### Corporate and Other

	Three-month period ended March 31,	
	2015	2014
<b>(in thousands of dollars)</b>		
Depreciation of property, plant and equipment .....	86	145
General and administrative .....	2,950	4,146
Share-based compensation .....	2,762	2,780
Operating loss .....	<b>(5,798)</b>	(7,071)

### General and Administrative

For the three-month period ended March 31, 2015, general and administrative expenses totalled \$2,950,000 compared to \$4,146,000 for the same period in 2014. The decrease is mainly due to our optimization efforts and to the strengthening of the US dollar against the Canadian dollar, which positively impacted our general and administrative cost.

### Share-based Compensation

	Three-month period ended March 31,	
	2015	2014
<b>(in thousands of dollars)</b>		
Options plans .....	—	540
Deferred Share Unit Plan .....	466	—
Restricted Share Unit Plan .....	2,296	2,240
	<b>2,762</b>	2,780

For the three-month period ended March 31, 2015, our share-based compensation expenses amounted to \$2,762,000 compared to \$2,780,000 for the same period in 2014.

### Options Plans

During the first quarter of 2015, there were no stock option-related expenses because they were already vested and amortized in 2014 and no new options were granted during the quarter, compared to the same period in 2014, during which a \$540,000 charge was recorded.

### Deferred Share Unit ("DSU") Plan

During 2014, we adopted a new DSU Plan<sup>1</sup>. At the beginning of 2015, the Board, on the recommendation of the Human resources and corporate governance committee, decided that independent directors would receive DSUs rather than options. For the three-month period ended March 31, 2015, our expense for deferred units outstanding was \$466,000 (2014: nil).

### Restricted Share Unit Plan

Our share-based compensation expenses included a charge of \$2,296,000 (2014: \$2,240,000) for our Restricted Share Unit Plan ("Unit Plan"). The \$2,296,000 charge related to the Unit Plan comprised a \$1,069,000 expense for restricted share units outstanding and a \$1,227,000 expense due to a change in fair value of our share price.

<sup>1</sup> Please refer to note 18 of the financial statements.



## 5. Other Elements of the Statement of Loss

### Finance Costs

During the first quarter of 2015, following the cancellation of a Credit Facility, we wrote-off financing fees of \$2,520,000, which were capitalized as other non-current assets in the consolidated financial position as at December 31, 2014.

### Foreign Exchange Loss

The foreign exchange loss increased to \$6,281,000 due to the revaluation of our monetary assets nominated in foreign currencies following the strengthening of the US dollar.

### Income Tax Expense

The income tax expense increase in the three-month period ended March 31, 2015, compared to the same period in 2014, is due to higher taxable income at the Mana Mine and the strengthening of the US dollar, which reduced the tax base of mining assets in foreign jurisdictions with the effect of lowering future tax deductions when converted into US dollars. These are non-cash items and are not indicative of the economic value of the underlying tax pools that may be used to reduce cash income taxes in the future. Further details regarding the income tax expense are provided in note 15 of the financial statements.

During 2014, we received from the Burkina Faso tax authorities a tax assessment for the years 2011 to 2013 of \$10,800,000 plus an additional \$6,400,000 in penalties. The assessment mainly covers value added tax ("VAT") on exploration assets transferred from the exploration entity to the producing entity and VAT on interest expenses and management fees. Since the exploration entity is exonerated from VAT, we are vigorously defending our position and have filed a submission to the Burkinabe tax authorities.

As a tax assessment was received from the Government of Burkina Faso in 2012, only penalties remain unsettled.

### Income (Loss) Attributable to Non-Controlling Interests

	Three-month period ended March 31,	
	2015	2014
(in thousands of dollars)		
Government of Burkina Faso – 10% in SEMAFO Burkina Faso S.A. ....	265	(622)
Government of Guinea – 15% in SEMAFO Guinée S.A. ....	–	(1,046)
	<b>265</b>	<b>(1,668)</b>

The non-controlling interest of the Government of Burkina Faso is directly linked to our subsidiary's net income (loss). SEMAFO Guinée S.A. was disposed of on May 22, 2014.

## 6. Cash Flows

The following table summarizes our cash flow activities:

	Three-month period ended March 31,	
	2015	2014
<b>(in thousands of dollars)</b>		
Cash flows		
Operations .....	<b>32,553</b>	2,142
Working capital items .....	<b>196</b>	(7,188)
Operating activities .....	<b>32,749</b>	(5,046)
Financing activities .....	<b>132,725</b>	2,953
Investing activities .....	<b>(172,437)</b>	(17,662)
Change in cash and cash equivalents during the period from continuing operations .....	<b>(6,963)</b>	(19,755)
Change in cash and cash equivalents during the period from discontinued operations .....	<b>–</b>	(994)
Effect of exchange rate changes on cash and cash equivalents .....	<b>(6,112)</b>	96
Cash and cash equivalents of continuing operations – beginning of period .....	<b>127,928</b>	82,159
Cash and cash equivalents of discontinued operations – beginning of period .....	<b>–</b>	440
Cash and cash equivalents – end of period .....	<b>114,853</b>	61,946
Less: cash and cash equivalents of discontinued operations - end of period .....	<b>–</b>	163
Cash and cash equivalents of continuing operations – end of period .....	<b>114,853</b>	61,783

### Operating

For the three-month period ended March 31, 2015, operating activities, before working capital items, generated cash flows of \$32,553,000 mainly due to a 106% increase in gold ounces sold compared to the same period in 2014. Working capital items generated liquidities of \$196,000 in 2015, mainly due to higher income tax receivable, while liquidities of \$7,188,000 were required in 2014.

Further details regarding the changes in non-cash working capital items are provided in note 23 a) of the financial statements.

### Financing

In first quarter of 2015, cash flows from financing activities amounted to \$132,725,000 compared to \$2,953,000 in the same period in 2014.

### Long-term Debt

On March 3, 2015, we entered into a credit agreement ("long-term debt") amounting to \$90,000,000 with Macquarie Bank Limited ("Lender"). We used the proceeds of the debt to fund the acquisition of Orbis. In consideration for the funding of the long-term debt, we pay to the lender an amount of \$1,200,000 of transactions costs.

### Shares Issued from the Exercise of Options

In the first quarter of 2015, 30,000 options were exercised for a cash consideration of \$51,000 compared to 1,532,000 options for a cash consideration of \$2,953,000 in the first quarter of 2014.

## 6. Cash Flows (continued)

### Bought Deal Private Placement

On February 11, 2015, a syndicate of underwriters purchased on a "bought deal" private placement basis, 13,600,000 of our common shares at \$2.97 (C\$3.70) per common share for aggregate gross proceeds of \$40,412,000 (C\$50,320,000). The underwriters elected to exercise the over-allotment option to purchase up to an additional 2,040,000 common shares at the same price for total gross proceeds of up to \$46,474,000 (C\$57,868,000). Share issue expenses related to this private offering totalled \$2,600,000 and were credited to total net proceeds.

As at March 31, 2015, the proceeds of our bought deal private placement have been solely used for the acquisition of Orbis.

### Investing

As of March 31, 2015, we hold or are entitled to 100% of Orbis' outstanding shares for which we paid a purchase price of \$138,200,000 (A\$178,169,000). In addition, an amount of \$14,729,000 was disbursed, which included net liability and transaction costs of \$1,621,000, for a total amount invested of \$154,550,000.

### Property, Plant and Equipment

Investments totalled \$17,887,000 for the three-month period ended March 31, 2015, compared to \$17,662,000 for the same period in 2014. The following table summarizes our 2015 and 2014 investing activities:

	Three-month period ended March 31,	
	2015	2014
<b>(in thousands of dollars)</b>		
Sustaining capital .....	3,644	3,916
Stripping cost .....	3,480	5,565
<b>Subtotal sustaining capital expenditures .....</b>	<b>7,124</b>	<b>9,481</b>
Siou development .....	—	4,446
Fofina development .....	—	2,363
<b>Subtotal growth capital expenditures .....</b>	<b>—</b>	<b>6,809</b>
Exploration expenditure .....	6,247	3,350
Capitalized borrowing costs .....	500	—
	<b>13,871</b>	19,640
Variation in unpaid acquisitions of property, plant and equipment .....	4,016	(1,978)
<b>Total .....</b>	<b>17,887</b>	<b>17,662</b>



## 7. Financial Position

As at March 31, 2015, we maintain a strong financial position with \$114,853,000 in cash and cash equivalents. Further to our private placement and completion of our new long-term debt in the first quarter of 2015, our debt-equity ratio stands at only 15%.

With our existing cash balance and forecasted cash flows from operations, we are well positioned to fund all of our cash requirements for 2015, which relate primarily to the following activities:

- Exploration programs
- Capital expenditures
- Feasibility study for Natougou advanced gold deposit

	As at March 31, 2015	As at December 31, 2014
<b>(in thousands of dollars)</b>		
Total current assets .....	<b>207,065</b>	223,524
Property, plant and equipment .....	<b>524,050</b>	382,388
Other non-current assets .....	<b>9,187</b>	12,390
<b>Total assets</b> .....	<b>740,302</b>	618,302
Current liabilities .....	<b>79,391</b>	58,047
Non-current liabilities .....	<b>92,130</b>	29,650
<b>Total liabilities</b> .....	<b>171,521</b>	87,697
<b>Equity attributable to equity shareholders</b> .....	<b>541,593</b>	503,682
<b>Non-controlling interest</b> .....	<b>27,188</b>	26,923

As at March 31, 2015, our total assets amounted to \$740,302,000 compared to \$618,302,000 as at December 31, 2014. The increase is mainly due to the addition of property, plant and equipment resulting from the acquisition of Orbis of \$154,550,000.

As at March 31, 2015, our liabilities totalled \$171,521,000, compared to \$87,697,000 as at December 31, 2014. The increase in liabilities is mainly due to our new long-term debt of \$90,000,000, which was used to fund the acquisition of Orbis.

### 8. Financial Instruments

The nature and extent of risks arising from financial instruments are described in note 17 of our 2014 annual consolidated financial statements.

During the first quarter of 2015, a new financial liability was included in the financial instruments, representing the long-term debt, that uses the amortized cost method. With the exception of the new financial liability during the first quarter of 2015, there was no material change to the nature of risks arising from financial instruments or classification of financial instruments. Furthermore, there was no change in the methodology used to determine the fair value of the financial instruments that are measured at fair value on our consolidated statement of financial position.

### 9. Contractual Obligations

#### **Asset Retirement Obligations**

Our operations are governed by mining agreements that include the protection of the environment. We conduct our operations in such manner as to protect public health and the environment. We implement progressive measures for rehabilitation work during the operation, in accordance with our mining agreements, as well as closing-down and follow-up work upon closure of a mine.

The liability for asset retirement obligations as at March 31, 2015 was \$6,095,000 (December 31, 2014: \$5,897,000). The estimated undiscounted value of this liability was \$10,809,000 (December 31, 2014: \$10,608,000). These disbursements are expected to be made during the years 2015 to 2026.

#### **Government Royalties and Development Taxes**

In Burkina Faso, all shipments with gold spot prices lower or equal to \$1,000 per ounce are subject to a royalty rate of 3%, a 4% rate is applied to all shipments with gold spot prices between \$1,000 and \$1,300 per ounce, and a 5% royalty rate is applied to all shipments with a gold spot price greater than \$1,300 per ounce. During the first quarter of 2015, we were subject to a royalty rate of 4%, which was calculated using the retail market value of gold ounces sold at the time of shipment. For the three-month period ended March 31, 2015, government royalties amounting to \$2,933,000 (2014: \$1,768,000) were paid to the Government of Burkina Faso.

#### **Net Smelter Royalty ("NSR")**

We are subject to NSR ranging from 1% to 1.5% on various exploration properties. The NSR comes into effect after we enter into commercial production.

#### **Purchase Obligations**

As at March 31, 2015, purchase commitments totalled \$2,154,000. In addition, on October 1, 2011, we entered into an agreement with National Electricity Company Sonabel, in Burkina Faso, pursuant to which we will advance funds for the construction of a high-voltage transmission line. As at March 31, 2015, we are committed to advance a remaining amount of \$2,313,000 (1,412,523,000 FCFA) to Sonabel with respect to this project.

#### **Payments to Maintain Mining Rights**

In the normal course of business, in order to obtain and maintain all the advantages of our mining permits, we must commit to invest a specific amount in exploration and development on the permits during their validity period. Moreover, we must make annual payments in order to maintain certain property titles. As at March 31, 2015, we were in compliance in all material respects with the obligations related to the ownership of our permits.

### 10. Critical Accounting Estimates and Judgments

The preparation of our financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. The estimates and assumptions that have a significant risk of causing material adjustments to our financial statements were disclosed in note 6 to our 2014 annual audited consolidated financial statements and they remain unchanged for the first quarter of 2015.

### 11. New Accounting Standard Issued but not yet in Effect

#### **IFRS 9, *Financial Instruments* ("IFRS 9")**

In July 2014, the IASB issued IFRS 9 – *Financial Instruments*. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and substantially completes the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*.

This standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only three classification categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flows characteristics of the financial asset or liability. The standard introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses. The new standard also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity and aligns hedge accounting more closely with risk management. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

#### **IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")**

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*. IFRS 15 replaces all previous revenue recognition standards, including IAS 18 – *Revenue*, and related interpretations such as IFRIC 13 – *Customer Loyalty Programmes*. The standard sets out the requirements for recognizing revenue. Specifically, the new standard introduces a comprehensive framework with the general principle being that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces more prescriptive guidance than was included in previous standards and may result in changes to the timing of revenue for certain types of revenues. The new standard will also result in enhanced disclosures about revenue that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The new standard is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The extent of the impact of adoption of IFRS 15 has not yet been determined.

### 12. Risks and Uncertainties

As a mining company, we face the financial and operational risks inherent to the nature of our activities. These risks may affect our financial condition and results of operation. As a result, an investment in our common shares should be considered speculative. Prospective purchasers or holders of our common shares should give careful consideration to all of our risks factors.

#### Financial Risks

##### **Fluctuation in Gold Prices**

The profitability of our operations will be significantly affected by changes in the market price of gold. Gold production from mining operations and the willingness of third parties, such as central banks, to sell or lease gold affect the gold supply. Demand for gold can be influenced by economic conditions, gold's attractiveness as an investment vehicle and the strength of the US dollar. Other factors include interest and exchange rates, inflation and political stability. The aggregate effect of these factors is impossible to predict with accuracy. Gold prices are also affected by worldwide production levels.

In addition, the price of gold has on occasion been subject to very rapid short-term changes due to speculative activities. Fluctuations in gold prices may materially adversely affect our financial condition and results of operation.

##### **Fluctuation in Petroleum Prices**

Because we use petroleum fuel to power our mining equipment and to generate electrical energy to power our mining operations, our financial condition and results of operation may be materially adversely affected by rising petroleum prices.

##### **Exchange Rate Fluctuations**

Our operations in West Africa are subject to currency fluctuations that may materially adversely affect our financial condition and results of operation. Gold is currently sold in US dollars and although the majority of our costs are also in US dollars, certain costs are incurred in other currencies. The appreciation of non-US dollar currencies against the US dollar can increase the cost of exploration and production in US dollar terms, which could materially adversely affect our financial condition and results of operation.

##### **Interest Rate Fluctuations**

As borrower of a long-term debt amounting to \$90 million, repayable in three years, our operations are subject to interest rate fluctuations. The long-term debt bears interest at LIBOR plus 6.5%. Therefore, a fluctuation in LIBOR could materially and adversely affect our financial position.

##### **Access to Capital Markets**

To fund our growth, we are often dependent on securing the necessary capital through loans or permanent capital. The availability of this capital is subject to general economic conditions and lender and investor interest in our projects.

#### Operational Risks

##### **Uncertainty of Reserves and Resources Estimates**

Reserves and resources are estimates based on limited information acquired through drilling and various sampling methods. No assurance can be given that anticipated tonnages and grades will be achieved or that level of recovery will be realized. The ore grade actually recovered may differ from the estimated grades of the reserves and resources. Such figures have been determined based upon assumed gold prices and operating costs.

Future production could differ dramatically from reserves estimates for, among others, the following reasons:

- mineralization or formations could differ from those predicted by drilling, sampling and similar examinations
- increases in operating mining costs and processing costs could materially adversely affect reserves
- the grade of the reserves may vary significantly from time to time and there is no assurance that any particular level of gold may be recovered from the reserves, and
- a decline in the market price of gold may render the mining of some or all of the reserves uneconomic.

Any of these factors may translate into increased costs or a reduction in our estimated reserves. Short-term factors, such as the need for the additional development of a deposit or the processing of new or different grades, may impair our profitability. Should the market price of gold fall, we could be required to materially write down our investment in mining properties or delay or discontinue production or the development of new projects.

### 12. Risks and Uncertainties (continued)

#### **Operational Risks** (continued)

##### **Production and Cash Operating Cost**

No assurance can be given that the intended or expected production schedules or the estimated cash operating costs will be achieved in respect of our operating gold mines. Many factors may cause delays or cost increases, including labour issues, disruptions in power, transportation or supplies, and mechanical failure. Our net income will depend, among other things, on the extent to which expected cash operating costs are achieved. In addition, short-term operating factors, such as the need for the orderly development of ore bodies or the processing of new or different ore grades, may cause a mining operation to be unprofitable in any particular period. Furthermore, our activities may be subject to prolonged disruptions due to weather conditions. Hazards, such as unusual or unexpected formations, rock bursts, pressures, cave-ins, flooding or other conditions may be encountered in the drilling and removal of material.

Our cash operating cost to produce an ounce of gold is further dependent on a number of factors, including the grade of reserves, recovery and plant throughput. Our future performance may hence materially adversely differ from the estimated performance. As these factors are beyond our control, there can be no assurance that our cash operating cost will be similar from year to year.

##### **Nature of Mineral Exploration and Mining**

Our profitability is significantly affected by our exploration and development programs. The exploration and development of mineral deposits involves significant financial risks over a significant period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of a gold-bearing structure may result in substantial rewards, few properties explored are ultimately developed into mines. Major expenses may be required to establish and replace reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that our current or proposed exploration programs will result in profitable commercial mining operations.

Whether a gold deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as its size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to taxes, royalties, infrastructure, land use, import and export of gold, revenue repatriation and environmental protection. The effects of these factors cannot be accurately predicted, but the combination of these factors may preclude us from receiving an adequate return on invested capital. Our operations are, and will continue to be, subject to all of the hazards and risks normally associated with the exploration, development and production of gold, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all damage.

##### **Integration of Acquired Business**

From time to time, we evaluate potential acquisition opportunities to support and strengthen our business and asset base. Recently, we acquired Orbis. The acquisition and integration of businesses such as Orbis involve a number of risks. Orbis and/or other future acquired businesses may not achieve expected results of operations and may require unanticipated costs and expenditures. Integration of the Orbis business may also place additional pressures on our systems of internal control over financial reporting. If we are unable to successfully integrate Orbis and other newly acquired businesses or if Orbis or other acquired businesses fail to produce targeted results, it could materially adversely affect our financial condition and results of operation.

##### **Limited Property Portfolio**

Currently, our only mineral property in operation is our Mana mine in Burkina Faso, which includes the high-grade deposits of Siou and Fofina. Unless we acquire or develop additional mineral properties, any adverse development affecting our Mana property could materially adversely affect our financial condition and results of operation.

##### **Depletion of our Mineral Reserves**

We must continually replace mining reserves depleted by production to maintain production levels over the long term. This is done by expanding known mineral reserves or by locating or acquiring new mineral deposits. There is, however, a risk that depletion of reserves will not be offset by future discoveries. Exploration for minerals is highly speculative in nature and involves many risks. Many, if not most gold projects are unsuccessful and there are no assurances that current or future exploration programs will be successful. Further, significant costs are incurred to establish mineral reserves, open new pits and construct mining and processing facilities. Development projects have no operating history upon which to base estimates of future cash flows and are subject to the successful completion of feasibility studies, obtaining necessary government permits, obtaining title or other land rights and the availability of financing. In addition, assuming discovery of an economic mine or pit, depending on the type of mining operation involved, many years may elapse before commercial operations commence. Accordingly, there can be no assurances that our current programs will result in any new commercial mining operations or yield new reserves to replace or expand current reserves.

### 12. Risks and Uncertainties (continued)

#### **Operational Risks** (continued)

##### **Water Supply**

Our operations require significant quantities of water for mining, ore processing and related support facilities. Our operations in Africa may be in areas where water is scarce. Continuous production at our mines is dependent on our ability to access adequate water supply. Insufficient water supply, as a result of new regulations or otherwise, could materially adversely affect our financial condition and results of operation.

##### **Availability of Infrastructure and Fluctuation in the Price of Energy and Other Commodities**

The exploration and development of mineral deposits is dependent on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinant susceptible to affect our capital and cash operating costs. Lack of such infrastructure or unusual or infrequent weather phenomena, sabotage, terrorism, government or other interference in the maintenance or provision of such infrastructure could materially adversely affect our financial condition and results of operation.

More particularly, Sonabel, the National Electricity Company of Burkina Faso, constructed a high-voltage transmission line that connects our Mana Mine to the National power grid. Accordingly, we cannot predict with certainty the extent of the line's reliability. Any failure in the reliability of such Sonabel power line could impair our ability to realize anticipated savings at Mana.

In addition, our profitability is affected by the market price and availability of commodities that are consumed or otherwise used in connection with our operations such as diesel, fuel, electricity, steel, concrete and chemical (including cyanide). Prices of such commodities are affected by factors that are beyond our control. An increase in the cost or decrease in the availability of needed commodities may materially adversely affect our financial condition and results of operations.

##### **Licenses and Permits**

We require licenses and permits from various governmental authorities. We believe that we hold all necessary licenses and permits under applicable laws and regulations in respect of our properties and that we presently comply in all material respects with the terms of such licenses and permits. Such licenses and permits, however, are subject to change in various circumstances. There can be no guarantee that we will be able to obtain or maintain all necessary licenses and permits that may be required to continue to operate our current undertakings, explore and develop properties or commence construction or operation of mining facilities and properties under exploration or development. Failure to obtain new licenses and permits or successfully maintain current ones may materially adversely affect our financial condition and results of operations.

##### **Political Risk**

While the government of Burkina Faso has supported the development of its natural resources by foreign companies, there is no assurance that this government will not in the future adopt different policies or new interpretations respecting foreign ownership of mineral resources, rates of exchange, environmental protection, labour relations, and repatriation of income or return of capital. Any limitation on transfer of cash or other assets between SEMAFO and our subsidiaries could restrict our ability to fund our operations or materially adversely affect our financial condition and results of operation.

Moreover, mining tax regimes in foreign jurisdictions are subject to differing interpretations and constant changes and may not include fiscal stability provisions. Our interpretation of taxation law, including fiscal stability provisions, as applied to our transactions and activities may not coincide with that of the tax authorities. As a result, taxes may increase and transactions may be challenged by tax authorities and our operations may be assessed, which could result in significant taxes, penalties and interest. We may also encounter difficulties in obtaining reimbursement of refundable tax from fiscal authorities.

The possibility that a future government may adopt substantially different policies or interpretations, which might extend to the expropriation of assets, cannot be ruled out. Political risk also includes the possibility of civil disturbances and political instability in this or neighboring countries.

##### **Title Matters**

Title to mineral projects and exploration and exploitation rights involves certain inherent risks due to the potential for problems arising from the ambiguous history characteristics of mining projects. While we have no reason to believe that the existence and extent of any mining property in which we have an interest is in doubt, title to mining properties is subject to potential claims by third parties and no guarantees can be provided that there are no unregistered agreements, claims or defects which may result in our titles being challenged.

In addition, the failure to comply with all applicable laws and regulations, including failure to pay taxes and carry out and file assessment work within applicable time period, may invalidate title to all or portions of the properties covered by our permits and licences.



### 12. Risks and Uncertainties (continued)

#### Operational Risks (continued)

##### Suppliers and Outside Contractors Risk

We are dependent on various services, equipment, supplies and parts to carry out our operations. The shortage of any needed good, part or service may cause cost increases or delays in delivery time thereby materially adversely affecting our production schedules as well as financial condition and results of operations.

In addition, we may incur liability to third parties as a result of the actions of a contractor. The occurrence of one or more of these risks could have a material adverse effect on our financial condition and results of operation.

##### Competition

The mineral exploration and mining business is competitive in all of its phases. We compete with numerous other companies and individuals, including competitors with greater financial, technical and other resources, in the search for and the acquisition of attractive mineral properties, equipment and increasingly, human resources. There is no assurance that we will continue to be able to compete successfully with our competitors.

##### Qualified and Key Personnel

In order to operate successfully, we must find and retain qualified employees with strong knowledge and expertise in the mining environment. SEMAFO and other companies in the mining industry compete for qualified and key personnel and if we are unable to attract and retain qualified personnel or fail to establish adequate succession planning strategies, our financial condition and results of operation could be materially adversely affected.

##### Labour and Employment Relations

We are dependent on our workforce to extract and process minerals. Our relations with our employees may be impacted by changes in labour relations which may be introduced by, among others, employee groups, unions and governmental authorities. Furthermore, some of our employees are represented by labour unions under collective labour agreements. We may not be able to satisfactorily renegotiate our collective labour agreements upon their expiration. In addition, existing labour agreements may not prevent a strike or work stoppage at our facilities in the future. Labour disruptions at any of our properties could have a material adverse impact on our financial condition and results of operation.

##### Ebola Virus

The Ebola virus outbreak in Guinea, Sierra Leone and Liberia, may represent a threat to maintaining a skilled workforce in the mining industry in Africa and become a healthcare challenge. Should the Ebola virus continue to spread, including to neighboring countries such as Burkina Faso, there can be no assurance that we would not lose members of our workforce, see our workforce productivity substantially reduced or be faced with increased demand from expatriate employees wanting to return to Canada or refusing to go to Africa, which could have a material adverse effect on our financial condition and results of operation.

##### Environmental Risks, Hazards and Costs

All phases of our operations are subject to environmental regulation in the various jurisdictions in which we operate. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. Environmental hazards which are unknown to us at present and which have been caused by previous or existing owners or operations of the properties may exist on our properties. Failure to comply with applicable environmental laws and regulations may result in enforcement actions and may include corrective measures that require capital expenditures or remedial actions. There is no assurance that future changes in environmental laws and regulations and permits governing operations and activities of mining companies, if any, will not materially adversely affect our financial condition and results of operations.

Production at our mines involves the use of sodium cyanide, which is a toxic material. Should sodium cyanide leak or otherwise be discharged from the containment system, we may become subject to liability for clean-up work that may not be insured. While all steps have been taken to prevent discharges of pollutants into ground water and the environment, we may become subject to liability for hazards that may also not be insured.

In addition, natural resource companies are required to conduct their operations and rehabilitate the lands that they mine in accordance with applicable environmental regulations. Our estimates of the total ultimate closure and rehabilitation costs may be materially different from these actual costs. Any underestimated or unanticipated rehabilitation cost could materially adversely affect our financial condition and results of operations.

### 12. Risks and Uncertainties (continued)

#### **Operational Risks** (continued)

##### **Insufficient Insurance**

While we may obtain insurance against certain risks in such amounts as we consider adequate, available insurance may not cover all the potential risks associated with a mining company operations. We may also be unable to maintain insurance to cover insurable risks at economically feasible premiums and insurance coverage may not be available in the future or may not be adequate to cover any resulting loss. Moreover, insurance risks such as the validity of ownership of unpatented mining claims and mill sites and environmental pollution or other hazards as a result of exploration and production is not generally available to gold mining companies on acceptable terms. The potential costs which may be associated with any liabilities not covered by insurance or in excess of insurance coverage or compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, materially adversely affecting our financial condition and results of operation.

##### **Resource Nationalism**

As African governments continue to struggle with deficits and depressed economies, the gold mining sector has been targeted to raise revenues. Governments are continually assessing the terms for a mining company to exploit resources in their country. If translated into applicable law, the trend in resource nationalism could materially adversely affect our financial condition and results of operation.

##### **Surrounding Communities Relations**

Natural resources companies face increasingly public scrutiny of their activities. We are under pressure to demonstrate that, as we seek to generate satisfactory returns to shareholders, other stakeholders including local governments and the communities surrounding our mines benefit from our commercial activities. The potential consequences of these pressures include reputational damages, lawsuits, increasing social investments obligations and pressure to increase taxes and royalties payable to local governments and surrounding communities. These pressures may also impair our ability to successfully obtain the permits and approvals required for our operations.

In addition, our properties in Burkina Faso may be subject to the rights or asserted rights of various community stakeholders. Moreover, artisanal miners may make use of some or all of our properties which would interfere with exploration and development activities on such properties.

##### **Reliance on Information Technology Systems**

Our operations are dependent upon information technology systems. These systems are subject to disruption, damage or failure from a variety of sources. Failures in our information technology systems could translate into production downtimes, operational delays, compromising of confidential information or destruction or corruption of data. Accordingly, any failure in our information technology systems could materially adversely affect our financial condition and results of operation. Information technology systems failures could also materially adversely affect the effectiveness of our internal controls over financial reporting.

##### **Litigation**

All industries, including the mining industry, are subject to legal claims, with and without merit. We have in the past been, currently are, and may in the future be, involved in various legal proceedings. While we believe it is unlikely that the final outcome of these legal proceedings will have an adverse material effect on our financial condition and results of operation, defense costs will be incurred, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular or several combined legal proceedings will not have a material adverse effect on our financial condition and results of operation.

##### **Anti-corruption Laws**

We operate in jurisdictions that have experienced governmental and private sector corruption to some degree. We are required to comply with the *Corruption of Foreign Public Officials Act* (Canada), which has recently seen an increase in both the frequency of enforcement and severity of penalties. Although we adopted a formal anti-corruption policy and our Code of conduct mandates compliance with anti-corruption laws, there can be no assurance that our internal control policies and procedures will always protect us from recklessness, fraudulent behavior, dishonesty or other inappropriate acts. Violation or alleged violation of anti-corruption laws could lead to civil and criminal fines and penalties, reputational damage and other consequences that may materially adversely affect our financial condition and results of operation.



### 13. Quarterly Information

	2015	2014				2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>(in thousands of dollars, except for amounts per share)</b>								
<b>Results from continuing operations</b>								
Revenues – Gold sales .....	<b>74,016</b>	78,591	84,524	87,761	38,473	50,771	49,488	53,781
Operating income (loss) .....	<b>11,207</b>	14,873	25,500	20,665	(14,679)	(8,407)	(2,935)	9,240
Net income (loss)								
from continuing operations .....	<b>(7,849)</b>	5,318	12,726	14,916	(13,565)	(7,312)	(227)	(11,571)
Attributable to:								
- Equity shareholders .....	<b>(8,114)</b>	4,609	11,172	12,974	(12,943)	(7,098)	(815)	(12,812)
- Non-controlling interests .....	<b>265</b>	709	1,554	1,942	(622)	(214)	588	1,241
Basic earnings (loss) per share								
from continuing operations .....	<b>(0.03)</b>	0.02	0.04	0.05	(0.04)	(0.03)	–	(0.05)
Diluted earnings (loss) per share								
from continuing operations .....	<b>(0.03)</b>	0.02	0.04	0.05	(0.04)	(0.03)	–	(0.05)
Cash flows from operating activities								
from continuing operations <sup>1</sup> .....	<b>32,553</b>	40,416	40,554	37,618	2,142	12,172	16,158	21,201
<b>Total results</b>								
Net income (loss):	<b>(7,849)</b>	5,318	12,726	15,701	(15,998)	(4,337)	(4,815)	(58,453)
Attributable to:								
- Equity shareholders .....	<b>(8,114)</b>	4,609	11,172	3,022	(14,330)	(18,798)	(5,206)	(51,058)
- Non-controlling interests .....	<b>265</b>	709	1,554	12,679	(1,668)	14,461	391	(7,395)
Basic earnings (loss) per share .....	<b>(0.03)</b>	0.02	0.04	0.01	(0.05)	(0.07)	(0.02)	(0.19)
Diluted earnings (loss) per share .....	<b>(0.03)</b>	0.02	0.04	0.01	(0.05)	(0.07)	(0.02)	(0.19)

<sup>1</sup> Cash flows from operating activities exclude changes in non-cash working capital items.

### 14. Information on Outstanding Shares

As at May 12, 2015, our share capital comprised 294,086,038 common shares issued and outstanding.

We have two stock option plans for our employees, officers, consultants and directors and those of our subsidiaries: the Stock Option Plan (the “Original Plan”) and the 2010 Stock Option Plan (the “2010 Plan”). At the 2010 Annual General and Special Shareholders’ Meeting, our shareholders adopted the 2010 Plan. Since adoption of the 2010 Plan by SEMAFO’s shareholders, no further options have been granted under the Original Plan.

The plans provide for the grant of non-transferable options for the purchase of common shares. As at May 12, 2015, stock options allowing its holders to purchase 5,328,526 common shares were outstanding.

## 15. Disclosure Controls and Procedures (DC&P) and Internal Controls over Financial Reporting (ICFR)

Management is responsible for establishing and maintaining adequate disclosure controls and internal controls over financial reporting. Any system of disclosure controls and internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There have been no changes in our disclosure controls and internal controls over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## 16. Non-IFRS Financial Performance Measures from Continuing Operations

Some of the indicators used by us to analyze and evaluate our results represent non-IFRS financial measures. We provide non-IFRS financial performance measures as they may be used by some investors to evaluate our financial performance. Since the non-IFRS performance measures do not have any standardized definition prescribed by IFRS, they may not be comparable to similar measures presented by other companies. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. For the non-IFRS financial performance measures not already reconciled within the document, we have defined the IFRS financial performance measures below and reconciled them to reported IFRS measures.

### Cash Operating Cost

A reconciliation of cash operating cost calculated in accordance with the Gold Institute Standard to the operating costs is included in the following table:

	Three-month period ended March 31,	
	2015	2014
<b>Per tonne processed</b>		
Tonnes of ore processed .....	537,300	642,000
<b>(in thousands of dollars except per tonne)</b>		
Mining operation expenses (relating to ounces sold) .....	31,996	31,984
Government royalties and selling expenses .....	(3,105)	(1,914)
Effects of inventory adjustments (doré bars and gold in circuit) .....	138	3,340
Operating costs (relating to tonnes processed) .....	29,029	33,410
Cash operating cost (per tonne processed) .....	<b>54</b>	<b>52</b>

### Total Cash Cost

	Three-month period ended March 31,	
	2015	2014
<b>Per ounce sold</b>		
Gold ounce sold .....	60,600	29,400
<b>(in thousands of dollars except per ounce)</b>		
Mining operation expenses .....	31,996	31,994
Total cash cost (per ounce sold) .....	<b>528</b>	<b>1,088</b>

## 16. Non-IFRS Financial Performance Measures from Continuing Operations

(continued)

### All-in Sustaining Cost

All-in sustaining cost represents the total cash cost plus sustainable capital expenditures and stripping costs per ounce.

	Three-month period ended March 31,	
	2015	2014
<b>Per ounce sold</b>		
Gold ounce sold .....	60,600	29,400
<b>(in thousands of dollars except per ounce)</b>		
Sustaining capital expenditure .....	7,124	9,481
Sustaining capital expenditure (per ounce sold) .....	118	322
Total cash cost (per ounce sold) .....	528	1,088
All-in sustaining cost (per ounce sold) .....	<b>646</b>	<b>1,410</b>

### Operating Cash Flows per Share

	Three-month period ended March 31,	
	2015	2014
<b>(in thousands of dollars except per share)</b>		
Cash flows from operating activities <sup>1</sup> .....	<b>32,553</b>	2,142
Weighted average number of outstanding common shares – basic .....	<b>281,486</b>	274,949
Operating cash flows per share .....	<b>0.12</b>	0.01

### Adjusted Accounting Measures

	Three-month period ended March 31,	
	2015	2014
<b>(in thousands of dollars except per share)</b>		
Net loss from continuing operations attributable to equity shareholders as per IFRS	<b>(8,114)</b>	(12,943)
Foreign exchange loss .....	<b>6,281</b>	104
Deferred tax effect of currency translation on tax base .....	<b>7,523</b>	11
Write-off of financing fees .....	<b>2,520</b>	–
<b>Adjusted net income (loss) from continuing operations attributable to equity shareholders</b> .....	<b>8,210</b>	(12,828)
Weighted average number of outstanding shares .....	<b>281,486</b>	274,949
<b>Adjusted basic earnings (loss) per share from continuing operations</b> .....	<b>0.03</b>	(0.04)

<sup>1</sup> Cash flows from operating activities exclude changes in non-cash working capital items.

### 17. Additional Information and Continuous Disclosure

This MD&A has been prepared as of May 12, 2015. Additional information on us is available through regular filings of press releases, financial statements and our Annual Information Form on SEDAR ([www.sedar.com](http://www.sedar.com)). These documents and other information about SEMAFO may also be found on our web site at [www.semafo.com](http://www.semafo.com).

### 18. Forward Looking Statements

This MD&A contains forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and assumptions and accordingly, actual results and future events could differ materially from those expressed or implied in such statements. You are hence cautioned not to place undue reliance on forward-looking statements. These forward looking statements include statements regarding our expectations as to the market price of gold, production targets, timetables, mining operation expenses, capital expenditures and mineral reserves and resources estimates. Forward-looking statements include words or expressions such as "committed", "evolve", "become", "maximise", "pursuing", "growth", "scheduled", "envisages", "goal", "should", "plan", "identifying", "designed to", "expected", "estimated", "will", "could", and other similar words or expressions. Factors that could cause future results or events to differ materially from current expectations expressed or implied by the forward looking statements include the ability to successfully integrate Orbis, the ability to complete the DFS early in the second quarter of 2016, the ability to complete the DFS within the budget estimate of \$12.5 million, the ability to complete the 6,000 meters of condemnation drilling on Natougou in the second quarter of 2015, the ability to convert the Natougou in-pit inferred resources to indicated resources, the ability to convert a portion of the Natougou indicated resources to the measured category, the ability to complete the 10,000 meters of drilling on proximal related structures at Natougou in the third quarter of 2015, the ability to execute on our strategic focus, fluctuations in the price of currencies, gold or operating costs, mining industry risks, uncertainty as to calculation of mineral reserves and resources, delays, requirements of additional financing, increase in tax or royalty rates or adoption of new interpretations related thereto, political and social stability in Africa (including our ability to maintain or renew licenses and permits) and other risks described in this MD&A and in our other documents filed from time to time with Canadian securities regulatory authorities. You can find further information with respect to these and other risks in filings made with the Canadian securities regulatory authorities available at [www.sedar.com](http://www.sedar.com). Documents are also available on our website at [www.semafo.com](http://www.semafo.com). We disclaim any obligation to update or revise these forward-looking statements, except as required by applicable law.