SEMAFO Inc.

Management's Discussion and Analysis
June 30, 2016

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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 advancing the development of the Natougou project. SEMAFO's strategic focus is to maximize shareholder value by effectively managing its existing assets as well as pursuing organic and strategic growth opportunities.

Management's Discussion and Analysis ("MD&A") is designed to provide the reader with a greater understanding of the Corporation's business, strategy and performance, as well as how it manages risk and capital resources. This MD&A, prepared as of August 9, 2016, is intended to complement and supplement our Condensed Interim Consolidated Financial Statements (the "financial statements") as at June 30, 2016 and for the period then ended. 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. 2016 Second Quarter Highlights

- Gold production of 61,300 ounces compared to 66,000 ounces for the same period in 2015
- Gold sales of $76.6 million compared to $81.1 million for the same period in 2015
- Total cash cost[1] of $547 per ounce sold and all-in-sustaining cost[1] of $742 per ounce sold compared to $471 and $604, respectively, for the same period in 2015
- Adjusted operating income[1] of $19.6 million compared to $23.4 million for the same period in 2015
- Adjusted net income attributable to equity shareholders[1] of $15.0 million or $0.05 per share[1] compared to $16.1 million or $0.05 per share[1] for the same period in 2015
- Cash flows from operating activities[2] of $37.4 million or $0.12 per share[1] compared to $40.7 million or $0.14 per share[1] for the same period in 2015
- Completion of a bought deal offering of common shares for aggregate gross proceeds of $90.8 million (C$115.1 million)
- Recipient of grand prize for Corporate Social Responsibility of Mining Companies in Burkina Faso (RSE 2016)

Natougou Development:

- Permitting in line for receipt by year-end 2016
- Procurement of long-lead comminution equipment secured for site delivery in H2 2017
- Development on time and on budget
- Detailed design and engineering 17% complete

[1] Total cash cost, all-in sustaining cost, adjusted operating income, 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" section of this MD&A, note 16.

[2] Cash flows from operating activities exclude changes in non-cash working capital items.

2. Key Economic Factors

Price of Gold

During the second quarter of 2016, the price of gold, based on the London Gold Fix PM, fluctuated from a high of $1,325 to a low of $1,212 per ounce. The average market gold price in the second quarter of 2016 was $1,260 per ounce compared to $1,192 per ounce for the same period in 2015, representing an increase of $68 or 6%.

	2016		2015	
	Q2	Q1	Q2	Q1
(in dollars per ounce)				
Average London Gold Fix	1,260	1,183	1,192	1,218
Average realized selling price	1,262	1,187	1,198	1,221

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 $47 per barrel in the second quarter of 2016 compared to $64 per barrel for the same period in 2015.

We purchase our fuel exclusively from the government of Burkina Faso in FCFA, the local currency, at a price fixed by decree that reflects market price fluctuations within a time lag. The average price fixed by decree was 638 FCFA (equivalent to $1.09) per litre in the three-month period June 30, 2016 compared to 674 FCFA (equivalent to $1.14) for the same period in 2015.

Foreign Currencies

Our mining operation 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 is fixed against the Euro.

During the three-month period ended June 30, 2016, the US dollar was on average weaker relative to the Euro when compared to the same period in 2015. As an important portion of our costs are nominated in foreign currencies other than the US dollar, the average foreign exchange had a negative year-over-year impact on our total cash cost[1] and all-in sustaining cost[1].

Exchange rates are as follows:

	CAD / USD $		EUR / USD $	
	2016	2015	2016	2015
December 31 (closing)	—	1.3884	—	0.9164
March 31 (closing)	**1.2971**	1.2683	**0.8779**	0.9310
June 30 (closing)	**1.3009**	1.2474	**0.9063**	0.8967
First quarter (average)	**1.3746**	1.2370	**0.9085**	0.8852
Second quarter (average)	**1.2890**	1.2290	**0.8848**	0.9047

[1] 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" section of this MD&A, note 16.

3. Consolidated Results and Mining Operations

Financial and Operating Highlights

	Three-month period ended June 30, 2016	2015	Variation	Six-month period ended June 30, 2016	2015	Variation
Gold ounces produced	**61,300**	66,000	(7%)	**122,600**	131,200	(7%)
Gold ounces sold	**60,700**	67,700	(10%)	**123,500**	128,300	(4%)
(in thousands of dollars, except amounts per share)						
Revenues – Gold sales	**76,590**	81,115	(6%)	**151,146**	155,131	(3%)
Mining operation expenses	**30,071**	28,638	5%	**58,793**	57,701	2%
Government royalties	**3,139**	3,259	(4%)	**6,157**	6,192	(1%)
Depreciation of property, plant and equipment	**20,164**	22,288	(10%)	**37,504**	46,398	(19%)
Share-based compensation	**5,127**	535	858%	**8,805**	3,297	167%
Other	**3,661**	3,571	3%	**7,623**	7,512	1%
Operating income	**14,428**	22,824	(37%)	**32,264**	34,031	(5%)
Finance costs	**1,062**	171	521%	**1,364**	3,210	(58%)
Foreign exchange loss (gain)	**2,714**	(1,686)	—	**(2,195)**	4,595	—
Income tax expense	**4,147**	2,382	74%	**8,272**	12,249	(32%)
Other	**(573)**	(158)	(263%)	**(946)**	(289)	(227%)
Net income	**7,078**	22,115	(68%)	**25,769**	14,266	81%
Attributable to equity shareholders						
Net income	**5,304**	19,719	(73%)	**21,488**	11,605	85%
Basic earnings per share	**0.02**	0.07	(71%)	**0.07**	0.04	75 %
Diluted earnings per share	**0.02**	0.07	(71%)	**0.07**	0.04	75 %
Adjusted amounts						
Adjusted operating income[1]	**19,555**	23,359	(16%)	**41,069**	37,328	10%
Adjusted net income attributable to equity shareholders[1]	**15,038**	16,114	(7%)	**27,440**	27,086	1%
Per share[1]	**0.05**	0.05	—	**0.09**	0.09	—
Cash flows						
Cash flows from operating activities[2]	**37,390**	40,748	(8%)	**72,594**	73,301	(1%)
Per share[1]	**0.12**	0.14	(14%)	**0.24**	0.26	(8%)
Statistics (in dollars)						
Average realized selling price (per ounce)	**1,262**	1,198	5%	**1,224**	1,209	1%
Cash operating cost (per tonne processed)[1]	**49**	46	7%	**46**	50	(8%)
Total cash cost (per ounce sold)[1]	**547**	471	16%	**526**	498	6%
All-in sustaining cost (per ounce sold)[1]	**742**	604	23%	**719**	624	15%

[1] Adjusted operating income, 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" section of this MD&A, note 16.

[2] Cash flows from operating activities exclude changes in non-cash working capital items.

3. Consolidated Results and Mining Operations (continued)

Second Quarter 2016 v. Second Quarter 2015

- During the second quarter of 2016, gold sales amounted to $76,590,000 compared to $81,115,000 for the same period in 2015. The 6% decrease in gold sales is caused by lower gold ounces sold, partially offset by an increase in the average realized selling price. The variation between gold ounces sold and gold ounces produced during the quarter is due to the timing of shipments.
- The decrease in operating income in the second quarter of 2016 compared to the same period in 2015 is mainly due to higher share-based compensation expense as a result of the increase in the fair value of our share price and lower revenue.
- The foreign exchange loss amounted to $2,714,000 due to the revaluation of our monetary assets denominated in foreign currencies following the appreciation of the US dollar as at June 30, 2016 compared to March 31, 2016.
- The increase in income tax expense is due to the strengthening of the US dollar at the end of the second quarter of 2016 whereas the US dollar weakened during the second quarter of 2015. At the close of the second quarter of 2016, the tax base of mining assets in foreign jurisdictions was therefore reduced and lowered future tax deductions when converted into US dollars. These non-cash items amounted to an expense of $1,893,000 for the second quarter of 2016, compared to a credit of $2,454,000 for the same period in 2015. These amounts are not indicative of the economic value of the underlying tax pools that may be used to reduce cash income taxes in the future.
- The decrease in cash flows from operating activities[1] in the second quarter of 2016 compared to the same period in 2015 is due to lower sales.

First Six Months 2016 v. First Six Months 2015

- During the first six months of 2016, gold sales amounted to $151,146,000 compared to $155,131,000 for the same period in 2015. The decrease in gold sales is caused by the lower gold ounces sold, partially offset by an increase in the average realized selling price. The variation between gold ounces sold and gold ounces produced is due to the timing of shipments.
- The operating income decrease in the first six months of 2016 compared to the same period in 2015 is attributable to lower revenues and higher share-based compensation expense resulting from the increase in the fair value of our share price, partially offset by lower depreciation of property, plant and equipment. In the first six months of 2015, the depreciation was greater due to the accelerated depreciation of the Wona-Kona capitalized stripping cost following the reduction of our reserves at the beginning of 2015.
- The finance costs were lower in the first six months of 2016 compared to the same period in 2015 due to the write-off of capitalized financing fees of $2,520,000 in 2015 following the cancellation of a previous credit facility.
- The foreign exchange gain amounted to $2,195,000 due to the revaluation of our monetary assets denominated in foreign currencies following the weakening of the US dollar as at June 30, 2016 compared to December 31, 2015.
- The decrease in income tax expense in the first six months of 2016 is due to the strengthening of the US dollar in the first six months of 2015, whereas the US dollar was stable as at June 30, 2016 compared to December 31, 2015. As at June 30, 2016, the tax base of mining assets in foreign jurisdictions was therefore higher and increased future tax deductions when converted into US dollars. These non-cash items amounted to a credit of $658,000 for the first six months of 2016, compared to an expense of $5,069,000 for the same period in 2015. These amounts are not indicative of the economic value of the underlying tax pools that may be used to reduce cash income taxes in the future.

[1] Cash flows from operating activities exclude changes in non-cash working capital items.

4. Operating Income by Segment

	Three-month period ended June 30,			Six-month period ended June 30,		
	2016	2015	Variation	**2016**	2015	Variation
(in thousands)	**$**	$	%	**$**	$	%
Mana, Burkina Faso	**22,414**	26,314	(15%)	**47,223**	43,319	9%
Natougou, Burkina Faso	**—**	—	—	**—**	—	—
Other exploration	**—**	—	—	**—**	—	—
Corporate and other	**(7,986)**	(3,490)	(129%)	**(14,959)**	(9,288)	(61%)
	14,428	22,824	(37%)	**32,264**	34,031	(5%)

The operating loss of the segment "Corporate and other" increased in the three-month and six-month periods ended June 30, 2016, compared to the same periods in 2015, mainly due to higher share-based compensation expense as a result of the increase in the fair value of our share price.

4. Operating Income by Segment (continued)

Mana, Burkina Faso

Mining Operations

	Three-month period ended June 30,			Six-month period ended June 30,		
	2016	2015	Variation	**2016**	2015	Variation
Operating Data						
Ore mined (tonnes)	**564,500**	540,100	5%	**1,064,800**	1,289,900	(17%)
Ore processed (tonnes)	**604,500**	600,900	1%	**1,287,400**	1,138,200	13%
Waste mined (tonnes)	**4,809,700**	5,151,900	(7%)	**8,269,100**	11,714,700	(29%)
Operational stripping ratio	**8.5**	9.5	(11%)	**7.8**	9.1	(14%)
Head grade (g/t)	**3.33**	3.71	(10%)	**3.18**	3.89	(18%)
Recovery (%)	**95**	92	3%	**93**	92	1%
Gold ounces produced	**61,300**	66,000	(7%)	**122,600**	131,200	(7%)
Gold ounces sold	**60,700**	67,700	(10%)	**123,500**	128,300	(4%)
Capitalized Stripping Activity						
Waste material – Siou (tonnes)	**3,658,600**	3,001,500	22%	**6,648,900**	4,469,800	49%
Waste material – Fofina (tonnes)	**192,200**	496,500	(61%)	**2,820,300**	1,242,200	127%
	3,850,800	3,498,000	10%	**9,469,200**	5,712,000	66%
Financial Data (in thousands of dollars)						
Revenues – Gold sales	**76,590**	81,115	(6%)	**151,146**	155,131	(3%)
Mining operations expenses	**30,071**	28,638	5%	**58,793**	57,701	2%
Government royalties	**3,139**	3,259	(4%)	**6,157**	6,192	(1%)
Depreciation of property, plant and equipment	**20,097**	22,189	(9%)	**37,373**	46,213	(19%)
General and administrative	**689**	581	19%	**1,285**	1,246	3%
Corporate social responsibility expenses	**180**	134	34%	**315**	460	(32%)
Segment operating income	**22,414**	26,314	(15%)	**47,223**	43,319	9%
Statistics (in dollars)						
Average realized selling price (per ounce)	**1,262**	1,198	5%	**1,224**	1,209	1%
Cash operating cost (per tonne processed)[1]	**49**	46	7%	**46**	50	(8%)
Total cash cost (per ounce sold)[1]	**547**	471	16%	**526**	498	6%
All-in sustaining cost (per ounce sold)[1]	**742**	604	23%	**719**	624	15%
Depreciation (per ounce sold)[2]	**331**	328	1%	**303**	360	(16%)

[1] 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" section of this MD&A, note 16.

[2] 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 by Segment (continued)

Mana, Burkina Faso (continued)

Mining Operations (continued)

Second Quarter 2016 v. Second Quarter 2015

- The decrease in head grade in the second quarter of 2016 compared to the same period in 2015 is due to the mine plan.
- The decrease in gold ounces produced and sold is a direct result of lower head grade.
- During the second quarter of 2016, gold sales amounted to $76,590,000 compared to $81,115,000 for the same period in 2015. The 6% decrease is attributable to lower gold ounces sold, partially offset by a higher average selling price.
- The depreciation of property, plant and equipment decreased as a result of the decrease in gold ounces sold.
- As expected, our cash operating cost[1] per tonne processed in the second quarter of 2016 amounted to $49 compared to $46 in the second quarter of 2015. The cost difference mainly reflects higher transportation costs due to mining solely from the Siou and Fofina pits, higher fleet maintenance costs and the negative impact of exchange rates.
- In the second quarter of 2016, the total cash cost[1] reached $547 per ounce sold compared to $471 for the same period in 2015. The increase is due to a higher cash operating cost per tonne and lower head grade. The 23% increase in all-in sustaining cost[1] was anticipated and was mainly driven by an increase in the capitalized stripping expenditure, lower ounces sold, and higher total cash cost[1].

First Six Months 2016 v. First Six Months 2015

- During the first six months of 2016, the lower ore mined compared to the same period in 2015, is due to the mine plan sequence.
- The increase in throughput in the first six months of 2016 compared to the same period in 2015 is due to the processing of ore through the secondary ball mill during the five-week shutdown of the SAG mill at the beginning of 2015.
- The year-over-year decrease in head grade in the first six months of 2016 is due to the mine plan and increased throughput from low-grade stockpiles.
- The decrease in gold ounces produced and sold is a direct result of the 18% lower head grade, partially offset by higher throughput.
- The depreciation of property, plant and equipment decreased as a result of the decrease in gold ounces sold. The depreciation[2] per ounce sold decreased by 16%, as a result of the accelerated depreciation of the Wona-Kona capitalized stripping cost in 2015 following the reduction of our reserves at the beginning of 2015.
- As expected, the cash operating cost[1] per tonne processed amounted to $46 in the first six months of 2016 compared to $50 for the same period in 2015. This is due to a lower operational stripping ratio and a reduction in the fuel price, partially offset by higher transportation and fleet maintenance costs.
- In the first six months of 2016, the total cash cost[1] reached $526 per ounce sold compared to $498 for the same period in 2015. The increase is due to a lower head grade, partially offset by a lower cash operating cost per tonne. The increase in all-in sustaining cost[1] is mainly due to an increase in the stripping capitalized expenditure and to a higher total cash cost[1].

[1] 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" section of this MD&A, note 16.

[2] 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 by Segment (continued)

Natougou, Burkina Faso

Natougou Development

The Natougou high-grade open deposit is located 320 kilometers east of Ouagadougou, the capital city of Burkina Faso. The Corporation completed a feasibility study earlier this year (see press release dated February 25, 2016) that includes a maiden reserves estimate of 9.6 million tonnes at an average grade of 4.15 g/t Au for 1,276,000 ounces of contained gold. The initial estimated capital expenditures are $219 million, and the first gold pour is expected to take place during the second half of 2018. During the first three years, average annual production is estimated at over 226,000 ounces at a total cash cost[1] of $283 per ounce and an all-in sustaining cost[1] of $374 per ounce. Project economics, using a gold price of $1,100 per ounce, indicate an after-tax 5% net present value (NPV) of $262 million and an after-tax Internal of Return (IRR) of 48%. At a gold price of $1,200 per ounce, the NPV increases to $334 million and the IRR to 58%.

In the second quarter, the Corporation continued to advance the Natougou Project towards construction start-up by year-end 2016. The Natougou Project has progressed as follows:

- Development on time and budget, with $4.3 million spent as at June 30, 2016
- Detailed design and engineering 17% complete
- Procurement of long-lead comminution equipment secured for site delivery in H2 2017
  - Package comprises SAG mill, tower mill, jaw crusher, cone crusher, vibrating screen and apron feeders
  - Tower mill is already in stock
- Issue of requests for quotation for the power plant, fuel depot, mining contractor and 14 other packages
- Hiring of key personnel for the construction phase is ongoing

Natougou Permitting

- Permitting is in line for receipt by year-end 2016
- Two out of the three steps completed: public hearings and meetings with the Technical Committee on Environmental Evaluations "COTEVE"
- Final milestone involves review of the application by the National Mining Commission, followed by grant of a mining permit

[1] Total cash cost and all-in sustaining cost are non-IFRS financial performance measures with no standard definition under IFRS.

4. Operating Income by Segment (continued)

Exploration

Mana Project, Burkina Faso

Year to date, 24,400 meters of RC drilling have been carried out on the Mana Project, of which 16,000 meters on Yama, 5,400 meters on BN2 and 3,000 meters on Kona Blé. More than half of the budgeted 60,000-meter auger program has now been effected, primarily on the BN2, Bissa, Wona Southwest, Yama and Mouni areas.

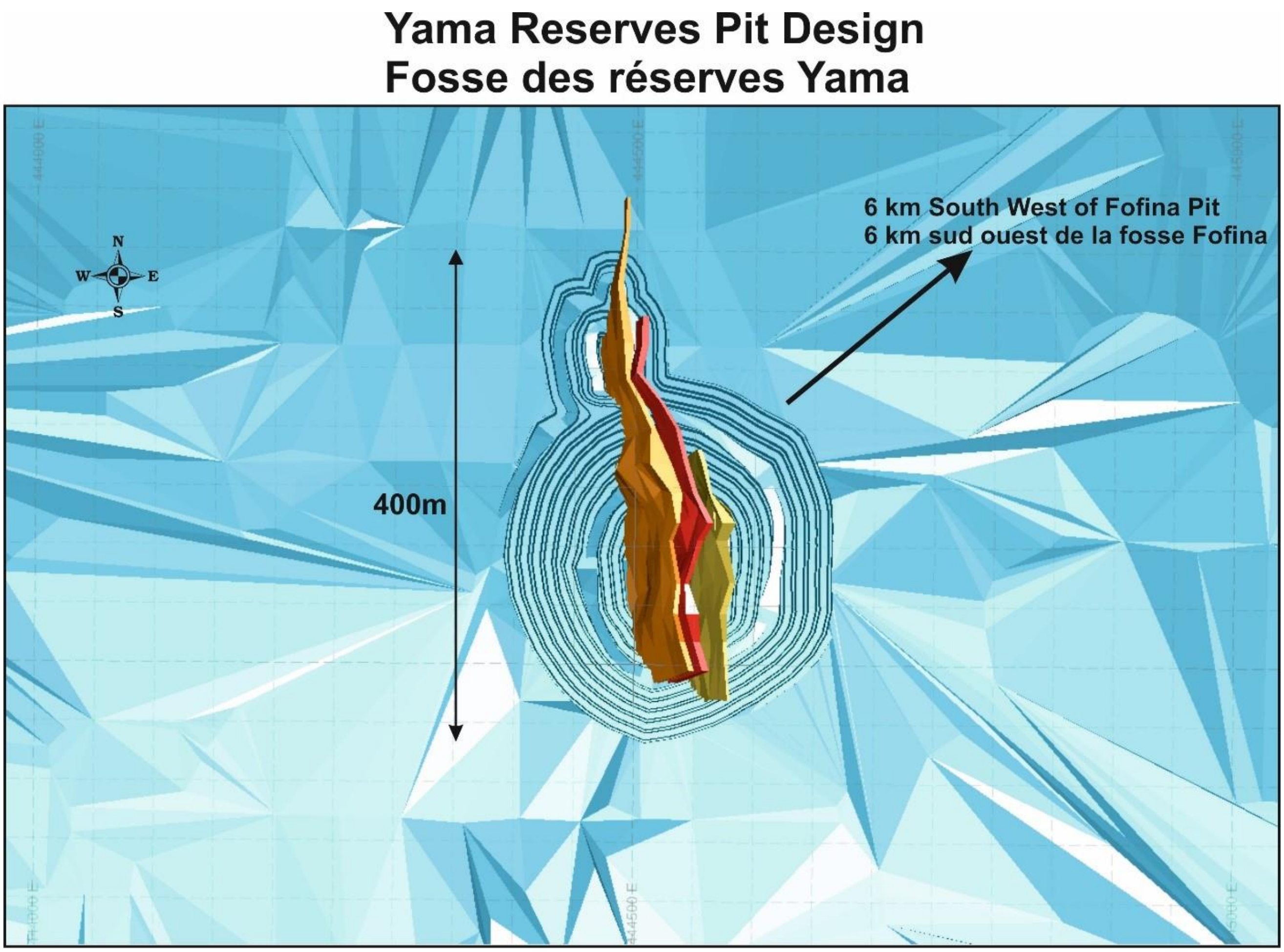
Yama Mineral Reserves Estimate

As at June 30, 2016, the open pit probable mineral reserves estimate for the Yama deposit totals 662,300 tonnes averaging 1.81 g/t Au for 38,500 ounces of contained gold. The mineral reserves were estimated based on a gold price of $1,100 per ounce. The Yama deposit will have a total strip ratio of 11:1 and an average mill recovery rate of 93%.

The Corporation will begin the process for an extension of the Mana mining permit in the second half of 2016.

The mineral reserves statement has been completed by Michel Crevier, P.Geo MScA, Vice-President Exploration and Mine Geology, who is SEMAFO's Qualified Person and has reviewed this text for accuracy and compliance with National Instrument 43-101.

Figure 1



4. Operating Income by Segment (continued)

Exploration (continued)

Mana Project, Burkina Faso (continued)

Bomobouéla Nord (BN2)
In the second quarter, a 5,400-meter RC drill program was realised on the Bombouéla Nord permit north of the Mana mill to investigate two subparallel trends that had been identified over a strike length of up to 2 kilometers. In addition, an auger drill campaign explored its south extension. Results were disappointing and do not justify a follow-up drill program.

Wona Proximal
Two drill rigs, one RC and one auger, are currently active on the Wona proximal area, particularly on the Kona Blé and southwest areas. To date, 3,000 meters of RC and 8,700 of auger drilling have been conducted for the program, which will slow down during the rainy season.

Natougou Project

Geological mapping of the Tapoa permit is progressing well, and our understanding of the property will be further enhanced by a recently conducted Phase II airborne magnetic survey that completed coverage of the property.

The 2016 auger program planned for the Natougou (Tapoa) Project is now complete, with a total of 62,000 meters drilled to date. Results from the program, coupled with those from the geophysical survey, will allow us to identify follow-up RC drill targets for the second half of the year.

About half of the auger drill campaign was realised on Trend 045, a regional structure that crosses the property to the south of the Natougou deposit along a northeast direction. Mapping, trenching, soil sampling, and auger drilling have been ongoing throughout the year, and results to date confirm the presence of key favourable features such as wide hydrothermal alterations along a strong deformation corridor associated with significant results such as 1.40 g/t Au over 7 meters in trenching. Soil sampling anomalies have also been noted locally along the corridor over a distance of more than 40 kilometers.

To maximise our understanding of the geological structure of Trend 045, the geological mapping campaign was prioritised over a follow-up RC program in the second quarter. The 5-000 meter RC program will now be conducted on the trend after the rainy season with results expected in the fourth quarter of 2016.

West Sector
An RC drill program is ongoing on the footwall zone of the Boungou Shear Zone and on the sector west of the deposit. Significant results are included below and in Figure 2.

Highlights West Zone

Drill hole*	From (meters)	To (meters)	Length (meters)	Au g/t
TPA0670	152.00	158.30	6.30	1.80
TPA0674	163.50	167.00	3.50	2.62
TPA0675	154.60	159.00	4.40	18.90
TPA0676	172.10	175.70	3.60	7.49
TPA0680	162.30	168.00	5.70	3.56

*Drilling was realised at an almost vertical dip.

Holes TPA0670, TPA0674 and TPA0675 represent in-fill results from the known portion of the zone, whereas TPA0676 extends a little to the west and the TPA0680 offers a northern extension. The latter two merit additional drilling.

4. Operating Income by Segment (continued)

Exploration (continued)

Natougou Project (continued)

Highlights Boungou Footwall Zone

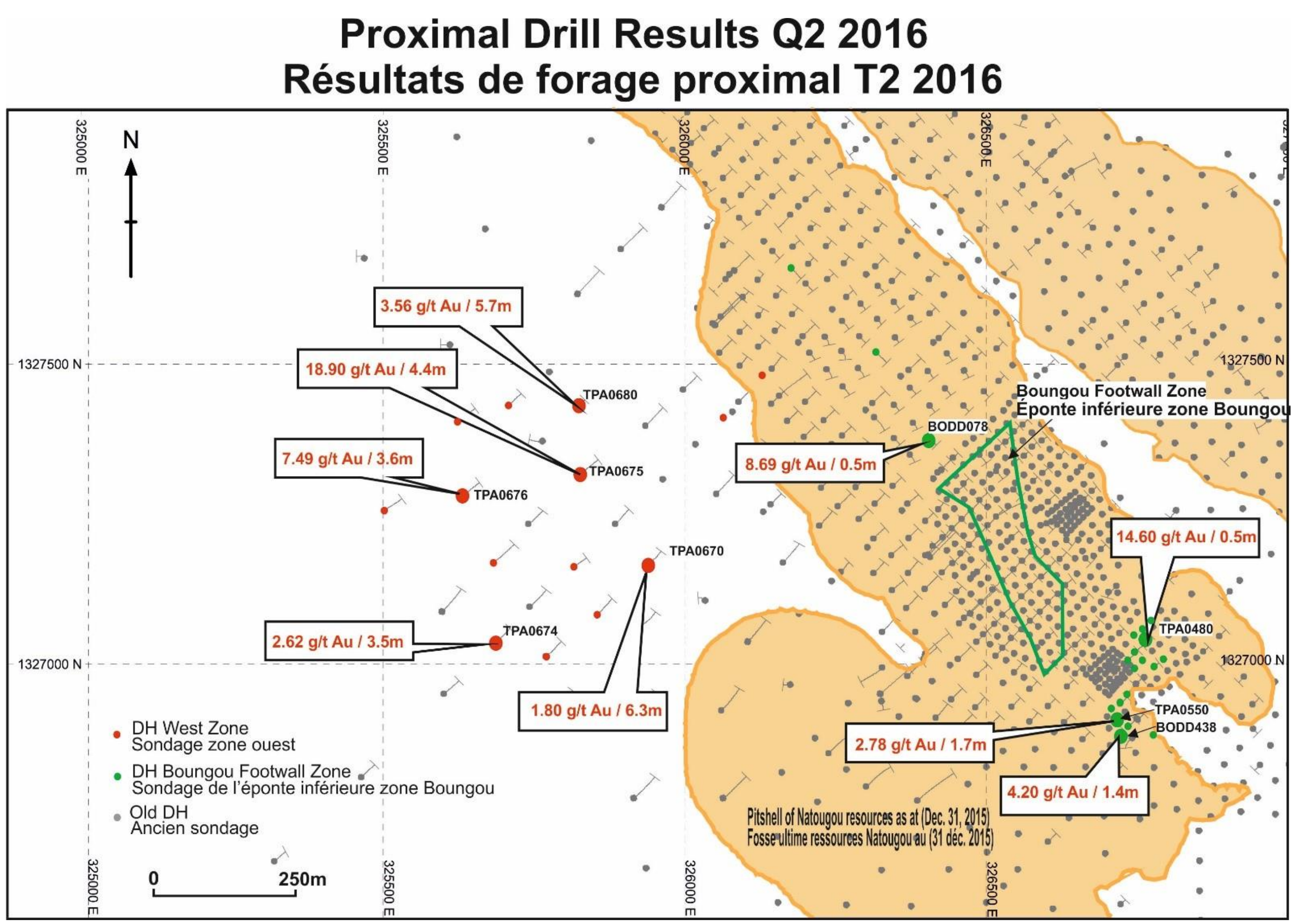
In the quarter, RC drilling was carried out on the Boungou Footwall Zone as shown in Figure 2.

Drill hole*	From (meters)	To (meters)	Length (meters)	Au g/t
TPA0480	31.00	31.50	0.50	14.60
BODD438	32.50	33.90	1.40	4.20
TPA0550	36.00	37.70	1.70	2.78
BODD078	84.50	85.00	0.50	8.69

*Drilling was realised at an almost vertical dip.

The RC program was designed to investigate potential footwall-type mineralization outside the one known area. While drilling on the eastern portion of the future open pit was unsuccessful, some good results such as BODD438, TPA0550 and BODD078 will be further investigated.

Figure 2



4. Operating Income by Segment (continued)

Exploration (continued)

Nabanga Project (Yactibo Permit Group)

A 16,000-meter RC program has been planned for the entire Nabanga Project in 2016.

In the second quarter, an RC drill program was completed on the Nabanga extension. Results from the small target exhibited low grades and no continuity.

In the Kamsongo mineralized zone close to the deposit, an RC program is ongoing that will slow down during the rainy season.

Corporate Social Responsibility

In the Boucle du Mouhoun region, the village of Wona, which houses most of the Mana Mine national employees, received a lasting solution for its dry season water supply issues in the quarter. At the proposal of the local population, the SEMAFO Foundation launched a water supply network at Wona that currently comprises five standposts. The water tower, which has been designed to supply water until the year 2035 to a projected population of 11,000 residents, will be powered by solar panels.

In addition to supporting the Wona water network, mine management installed water retention ponds using pit water to facilitate the watering of animals and vegetable gardens.

The SEMAFO Foundation also inaugurated four projects related to each of its revenue-generating activities. Women's groups will benefit from two of the projects: the launch of a new poultry centre project and a biogas facility for the shea butter centre. In June, an inventory storage house was formally opened for utilization by 2,000 sesame producers and a honey store was inaugurated to commercialize beekeeping group produce.

In the Natougou region, the quarter saw the SEMAFO Foundation advance construction of a first primary school, lay groundworks for a school fence, and distribute a first batch of bicycles to needy students. Construction of two cereal banks has commenced to support Natougou communities during lean periods, and residents of an artisanal mining village were sensitised to the risks associated with the use of mercury in their activities.

The Corporation was delighted to have its community efforts validated for the second year in a row through the award of the grand prize for Corporate Social Responsibility of Mining Companies in Burkina Faso (RSE 2016) by the Groupe Redevabilité (Accountability Group). This year, in addition to prizes for female entrepreneurship, communities and local development, SEMAFO also scooped a prize for the environment.

4. Operating Income by Segment (continued)

Corporate and Other

(in thousands)	Three-month period ended June 30, 2016 $	2015 $	Six-month period ended June 30, 2016 $	2015 $
Depreciation of property, plant and equipment	**67**	99	**131**	185
General and administrative	**2,792**	2,856	**6,023**	5,806
Share-based compensation	**5,127**	535	**8,805**	3,297
Segment operating loss	**(7,986)**	(3,490)	**(14,959)**	(9,288)

Share-based Compensation

(in thousands)	Three-month period ended June 30, 2016 $	2015 $	Six-month period ended June 30, 2016 $	2015 $
Restricted Share Unit Plan (a)	**4,440**	586	**7,186**	2,882
Deferred Share Unit Plan (b)	**677**	(51)	**1,515**	415
Performance Share Unit (c)	**10**	—	**104**	—
	5,127	535	**8,805**	3,297

a) Restricted Share Unit Plan ("Unit Plan")

For the three-month period ended June 30, 2016, our share-based compensation expense included a charge of $4,440,000 (2015: $586,000) for our Unit Plan. The $4,440,000 charge includes a $664,000 expense for restricted share units outstanding and a $3,776,000 expense due to an increase in the fair value of our share price.

For the six-month period ended June 30, 2016, our share-based compensation expense included a charge of $7,186,000 (2015: $2,882,000) for our Unit Plan. The $7,186,000 charge includes a $1,584,000 expense for restricted share units outstanding and a $5,602,000 expense due to an increase in the fair value of our share price.

b) Deferred Share Unit ("DSU") Plan

During 2015, we adopted a new DSU Plan. 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 instead of options.

For the three-month period ended June 30, 2016, our expense for DSUs represented $677,000 (2015: credit of $51,000) and is related to the increase in the fair value of our share price.

For the six-month period ended June 30, 2016, our expense for DSUs represented $1,515,000 (2015: $415,000), of which $444,000 is attributable to the granting of DSUs and $1,071,000 to the increase in the fair value of our share price.

c) Performance Share Unit ("PSU")

In the first quarter of 2016, we granted PSUs under the RSU Plan. Please refer to note 11 of the financial statements for more details.

5. Other Elements of the Statement of Income

Foreign Exchange Loss (Gain)

For the three-month ended period ended June 30, 2016, the foreign exchange loss amounted to $2,714,000 due to the revaluation of our monetary assets denominated in foreign currencies following the strengthening of the US dollar as at June 30, 2016 compared to March 31, 2016.

For the six-month period ended June 30, 2016, the foreign exchange gain amounted to $2,195,000 due to the revaluation of our monetary assets denominated in foreign currencies following the weakening of the US dollar as at June 30, 2016 compared to December 31, 2015.

Income Tax Expense

The increase in income tax expense is due to the strengthening of the US dollar at the end of the second quarter of 2016 whereas the US dollar weakened during the second quarter of 2015. At the close of the second quarter of 2016, the tax base of mining assets in foreign jurisdictions was therefore reduced and lowered future tax deductions when converted into US dollars. These non-cash items amounted to an expense of $1,893,000 for the second quarter of 2016, compared to a credit of $2,454,000 for the same period in 2015.

The decrease in income tax expense in the first six months of 2016 is due to the strengthening of the US dollar in the first six months of 2015, whereas the US dollar was stable as at June 30, 2016 compared to December 31, 2015. As at June 30, 2016, the tax base of mining assets in foreign jurisdictions was therefore higher and increased future tax deductions when converted into US dollars. These non-cash items amounted to a credit of $658,000 for the first six months of 2016, compared to an expense of $5,069,000 for the same period in 2015. These amounts are not indicative of the economic value of the underlying tax pools that may be used to reduce cash income taxes in the future.

Income Attributable to Non-Controlling Interest

For the three-month period ended June 30, 2016, the non-controlling interest of Government of Burkina Faso, which represents 10% in SEMAFO Burkina Faso S.A., was $1,774,000 (2015: $2,396,000).

For the six-month period ended June 30, 2016, the non-controlling interest of Government of Burkina Faso, which represents 10% in SEMAFO Burkina Faso S.A., was $4,281,000 (2015: $2,661,000).

6. Cash Flows

The following table summarizes our cash flow activities:

	Three-month period ended June 30,		Six-month period ended June 30,	
	2016	2015	**2016**	2015
(in thousands)	**$**	$	**$**	$
Cash flows				
Operations	**37,390**	40,748	**72,594**	73,301
Working capital items	**(3,578)**	(8,672)	**3,187**	(8,476)
Operating activities	**33,812**	32,076	**75,781**	64,825
Financing activities	**76,620**	—	**48,025**	132,725
Investing activities	**(20,397)**	(18,050)	**(39,940)**	(190,487)
Change in cash and cash equivalents during the period	**90,035**	14,026	**83,866**	7,063
Effect of exchange rate changes on cash and cash equivalents	**(2,632)**	1,992	**3,038**	(4,120)
Cash and cash equivalents – beginning of the period	**166,667**	114,853	**167,166**	127,928
Cash and cash equivalents – end of the period	**254,070**	130,871	**254,070**	130,871

6. Cash Flows (continued)

Operating

Second Quarter 2016 v. Second Quarter 2015

For the three-month period ended June 30, 2016, operating activities, before working capital items, generated cash flows of $37,390,000 compared to $40,748,000 in the same period in 2015 mainly due to lower sales and higher mining operation expenses. Working capital items required liquidities of $3,578,000 in the second quarter of 2016, mainly due to lower provisions and withholding taxes paid of $5,827,000, partially offset by higher trade payables and accrued liabilities and higher income tax payable, while in the second quarter of 2015, liquidities of $8,672,000 were used. Withholding taxes of $5,827,000 was disbursed during the second quarter of 2016 as a result of a dividend paid to the non-controlling interest and to SEMAFO (Barbados) Limited.

First Six Months 2016 v. First Six Months 2015

For the six-month period ended June 30, 2016, operating activities, before working capital items, generated cash flows of $72,594,000 compared to $73,301,000 in the same period in 2015 due to lower sales. Working capital items generated liquidities of $3,187,000 in the first six months of 2016, mainly due to lower inventories, higher trade payables and accrued liabilities and higher income tax payable, partially offset by lower provisions and withholding taxes paid of $5,827,000 as explained above, while in the first six months of 2015, liquidities of $8,476,000 were used.

Further details regarding the changes in non-cash working capital items are provided in note 18 a) of the financial statements.

Financing

Second Quarter 2016 v. Second Quarter 2015

In the three-month period ended June 30, 2016, cash flow provided by financing activities amounted to $76,620,000, compared to nil for the same period in 2015.

Bought Deal Financing

On April 22, 2016, a syndicate of underwriters purchased, on a bought deal basis, 26,450,000 common shares of the Corporation, at a price of $3.43 (C$4.35) per common share for aggregate gross proceeds of approximately $90,762,000 (C$115,057,500). Share issue expenses related to this bought deal financing totalled approximately $4,787,000.

Proceeds on Issuance of Share Capital from the Exercise of Options

A total of 479,000 options were exercised during the three-month period ended June 30, 2016, under both the Share Option Plan ("Original Plan") and the 2010 Share Option Plan ("2010 Plan") for a cash consideration of $1,263,000. For the same period in 2015, no options were exercised.

Dividend

During the second quarter of 2016, we paid $10,359,000 of dividend to the non-controlling interest, which is the Government of Burkina Faso and which owns 10% of SEMAFO Burkina Faso S.A.

6. Cash Flows (continued)

Financing (continued)

First Six Months 2016 v. First Six Months 2015

In the six-month period ended June 30, 2016, cash flow provided by financing activities amounted to $48,025,000, while $132,725,000 was generated in the same period in 2015.

Credit Facility with Macquarie Bank Limited ("Macquarie")

On March 3, 2015, we entered into a credit facility ("Original Credit facility") amounting to $90,000,000 with Macquarie. We used the proceeds of the Original Credit facility to fund the acquisition of Orbis Gold Limited. In consideration for the Original Credit facility, we paid Macquarie an amount of $1,200,000 recorded as transaction costs.

In the first six months of 2016, we reimbursed $30,000,000 of our Original Credit facility as per the repayment schedule. As at March 29, we executed an amendment to the Original Credit facility, which mainly consisted of an incremental $60,000,000 ("New Advance") in financing to be drawn down by June 30, 2017. In addition, we paid $259,000 in transaction cost during the first six months of 2016 in connection with the New Advance. For more information on the long-term debt, refer to note 7 of our financial statements.

Bought Deal Financing

On February 11, 2015, a syndicate of underwriters purchased on a "bought deal" private placement basis, 15,640,000 of our common shares at $2.97 (C$3.70) per common share for aggregate gross proceeds of $46,474,000 (C$57,868,000). Share issue expenses related to this private offering totalled $2,600,000 and were debited to retained earnings.

On April 22, 2016, we entered into a public bought deal financing for a net proceeds of $85,975,000 as explained above.

Use of proceeds as at June 30, 2016 in comparison to the previously announced use of proceeds of our 2016 public offering is broken down as follows:

	Announced use of proceeds	Actual use of proceeds, June 30, 2016
(in thousands)	$	$
Exploration at Mana and Natougou	36,287	5,524
Flexibility at Natougou	22,679	—
Working capital and general corporate purposes	27,009	3,481
	85,975	**9,005**

Proceeds on Issuance of Share Capital from the Exercise of Options

A total of 1,343,000 options were exercised during the six-month period ended June 30, 2016, under the Original Plan and the 2010 Plan for a cash consideration of $2,668,000. For the same period in 2015, a total of 30,000 options were exercised under the Original Plan and the 2010 Plan for a cash consideration of $51,000.

Dividend

In the first six months of 2016, we paid $10,359,000 of dividend to the non-controlling interest, the Government of Burkina Faso who owns 10% of SEMAFO Burkina Faso S.A.

6. Cash Flows (continued)

Investing

In the first quarter of 2015, we acquired Orbis, 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 $20,397,000 and $39,940,000 for the three-month and six-month periods ended June 30, 2016 compared to $17,484,000 and $35,371,000 for the same periods in 2015. The following table summarizes our investing activities.

	Three-month period ended June 30,		Six-month period ended June 30,	
	2016	2015	**2016**	2015
(in thousands)	$	$	$	$
Sustaining capital	**4,461**	3,875	**6,462**	7,519
Stripping cost	**7,383**	5,142	**17,331**	8,622
Subtotal sustaining capital expenditures	**11,844**	9,017	**23,793**	16,141
Exploration expenditure	**5,524**	6,923	**9,650**	12,749
Pre-construction phase - Natougou project	**4,310**	—	**4,310**	—
Capitalized borrowing costs	**797**	5,305	**2,189**	2,019
Feasibility study - Natougou project	**—**	1,519	**1,158**	5,726
	22,475	22,764	**41,100**	36,635
Variation in unpaid acquisitions of property, plant and equipment	**(2,078)**	(5,280)	**(1,160)**	(1,264)
Total	**20,397**	17,484	**39,940**	35,371

7. Financial Instruments

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

8. 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 the circumstances. The estimates and assumptions that have a significant risk of causing material adjustments to our financial statements are disclosed in note 5 to our 2015 annual audited consolidated financial statements.

9. New Accounting Standards Issued but not yet in Effect

The new accounting standards issued but not yet in effect are disclosed in note 4 to our 2015 annual audited consolidated financial statements.

10. Financial Position

As at June 30, 2016, we held $254,070,000 in cash and cash equivalents. With our existing cash balance, our forecasted cash flows from operations and the upcoming drawdown of the New Advance, we are well positioned to fund all of our cash requirements for 2016 to 2018, which relate primarily to the following activities:

- Construction of the Natougou Project
- Exploration programs
- Capital expenditures at Mana

(in thousands)	As at June 30, 2016 $	As at December 31, 2015 $
Total current assets	**324,688**	241,650
Property, plant and equipment	**533,731**	529,087
Other non-current assets	**15,620**	10,776
Total assets	**874,039**	781,513
Current liabilities	**56,369**	72,627
Non-current liabilities	**102,054**	103,023
Total liabilities	**158,423**	175,650
Equity attributable to equity shareholders	**690,828**	574,997
Non-controlling interest	**24,788**	30,866

As at June 30, 2016, our total assets amounted to $874,039,000 compared to $781,513,000 as at December 31, 2015 as a result of the increase of our cash and cash equivalents resulting from the 2016 public bought deal offering for an amount of $85,975,000, net of transaction fees.

As at June 30, 2016, our liabilities totalled $158,423,000, compared to $175,650,000 as at December 31, 2015. The decrease in our liabilities is mainly due to the repayment of $30,000,000 of the Original Credit facility.

11. 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 June 30, 2016 was $7,098,000 (December 31, 2015: $6,676,000).

Government Royalties
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.

In 2016, we were subject to a royalty rate of 4% and 5% (2015: 4%), which was calculated using the retail market value of gold ounces sold at the time of shipment. For the three-month period ended June 30, 2016, government royalties amounting to $3,139,000 (three-month period ended June 30, 2015: $3,259,000) were paid to the Government of Burkina Faso. For the six-month period ended June 30, 2016, government royalties amounting to $6,157,000 (six-month period ended June 30, 2015: $6,192,000) were paid to the Government of Burkina Faso.

Net Smelter Royalty ("NSR")
We are subject to an NSR ranging from 1% to 1.5% on various exploration properties. The NSR comes into effect when we enter into commercial production.

Purchase Obligations
As at June 30, 2016, purchase commitments totaled $18,438,000, of which $17,444,000 relate to the Natougou 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 investing 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 June 30, 2016, we were in compliance in all material respects with the obligations related to the ownership of our material permits.

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 risk 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.

12. Risks and Uncertainties (continued)

Financial Risks (continued)

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 a borrower of a long-term debt amounting to $60 million, our operations are subject to interest rate fluctuations. The long-term debt bears interest at LIBOR plus 4.75%. Therefore, a fluctuation in LIBOR could materially adversely affect our financial condition and results of operation.

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.

Production and Cost Estimates

No assurance can be given that the intended or expected production schedules or the estimated cash costs and capital expenditures will be achieved. Failure to achieve production or cost estimates or material increases in costs could have an adverse impact on the Corporation's future cash flows, profitability, results of operations and financial condition. Many factors may cause delays or cost increases, including labour issues, disruptions in power, transportation or supplies, and mechanical failure. 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 cost to produce an ounce of gold is further dependent on a number of factors, including the grade of reserves, recovery, plant throughput, the cost of commodities, general inflationary pressures and currency exchange rates. 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 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.

12. Risks and Uncertainties (continued)

Operational Risks (continued)

Nature of Mineral Exploration and Mining (continued)

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 or other future acquired businesses may not achieve expected results of operations and may require unanticipated costs and expenditures. Integration of businesses may also place additional pressures on our systems of internal control over financial reporting. If we are unable to successfully integrate Orbis or 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.

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.

12. Risks and Uncertainties (continued)

Operational Risks (continued)

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 the 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 our or neighboring countries as well as threats to the security of our mines and workforce due to political unrest, civil wars or terrorist attacks.

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 licenses.

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 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.

12. Risks and Uncertainties (continued)

Operational Risks (continued)

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.

Environmental Risks, Hazards and Costs

All phases of our operations are subject to environmental regulation in the 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.

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 mill sites, environmental pollution, waste disposal 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.

12. Risks and Uncertainties (continued)

Operational Risks (continued)

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. Information on Outstanding Shares

As at August 9, 2016, our share capital comprised 324,815,411 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 the adoption of the 2010 Plan by our 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 August 9, 2016, stock options allowing its holders to purchase 2,422,483 common shares were outstanding.

14. 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 June 30, 2016 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

15. Quarterly Information

	2016		2015				2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
(in thousands of dollars, except for amounts per share)								
Results								
Revenues – Gold sales	76,590	74,556	72,475	72,523	81,115	74,016	78,591	84,524
Operating income	14,428	17,836	12,549	19,486	22,824	11,207	14,873	25,500
Net income (loss)	7,078	18,691	1,796	14,491	22,115	(7,849)	5,318	12,726
Attributable to:								
- Equity shareholders	5,304	16,184	476	12,829	19,719	(8,114)	4,609	11,172
- Non-controlling interests	1,774	2,507	1,320	1,662	2,396	265	709	1,554
Basic earnings (loss) per share	0.02	0.05	—	0.04	0.07	(0.03)	0.02	0.04
Diluted earnings (loss) per share	0.02	0.05	—	0.04	0.07	(0.03)	0.02	0.04
Cash flows from operating activities[1]	37,390	35,204	39,430	34,830	40,748	32,553	40,416	40,554

16. Non-IFRS Financial Performance Measures

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 June 30,		Six-month period ended June 30,	
	2016	2015	2016	2015
Per tonne processed				
Tonnes of ore processed	604,500	600,900	1,287,400	1,138,200
(in thousands of dollars except per tonne)				
Mining operation expenses (relating to ounces sold)	33,210	31,897	64,950	63,893
Government royalties and selling expenses	(3,338)	(3,438)	(6,551)	(6,544)
Effects of inventory adjustments (doré bars and gold in circuit)	(147)	(1,007)	215	(869)
Operating costs (relating to tonnes processed)	29,725	27,452	58,614	56,480
Cash operating cost (per tonne processed)	**49**	46	**46**	50

[1] Cash flows from operating activities exclude changes in non-cash working capital items.

16. Non-IFRS Financial Performance Measures (continued)

Total Cash Cost

	Three-month period ended June 30,		Six-month period ended June 30,	
	2016	2015	**2016**	2015
Per ounce sold				
Gold ounce sold	60,700	67,700	123,500	128,300
(in thousands of dollars except per ounce)				
Mining operation expenses	33,210	31,897	64,950	63,893
Total cash cost (per ounce sold)	**547**	471	**526**	498

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 June 30,		Six-month period ended June 30,	
	2016	2015	**2016**	2015
Per ounce sold				
Gold ounce sold	60,700	67,700	123,500	128,300
(in thousands of dollars except per ounce)				
Sustaining capital expenditure	11,844	9,017	23,793	16,141
Sustaining capital expenditure (per ounce sold)	195	133	193	126
Total cash cost (per ounce sold)	547	471	526	498
All-in sustaining cost (per ounce sold)	**742**	604	**719**	624

Operating Cash Flows per Share

	Three-month period ended June 30,		Six-month period ended June 30,	
	2016	2015	**2016**	2015
(in thousands except per share)				
Cash flows from operating activities[1]	37,390	40,748	72,594	73,301
Weighted average number of outstanding common shares - basic	317,067	294,086	305,767	287,216
Operating cash flows per share	**0.12**	0.14	**0.24**	0.26

[1] Cash flows from operating activities exclude changes in non-cash working capital items.

16. Non-IFRS Financial Performance Measures (continued)

Adjusted Accounting Measures

(in thousands of dollars except per share)	Three-month period ended June 30, 2016	Three-month period ended June 30, 2015	Six-month period ended June 30, 2016	Six-month period ended June 30, 2015
Net income attributable to equity shareholders as per IFRS	5,304	19,719	21,488	11,605
Foreign exchange loss (gain)	2,714	(1,686)	(2,195)	4,595
Deferred tax effect of currency translation on tax base	1,893	(2,454)	(658)	5,069
Share-based compensation	5,127	535	8,805	3,297
Write-off of financing fees	—	—	—	2,520
Adjusted net income attributable to equity shareholders	**15,038**	16,114	**27,440**	27,086
Weighted average number of outstanding shares	317,067	294,086	305,767	287,216
Adjusted basic earnings per share	**0.05**	0.05	**0.09**	0.09

(in thousands)	Three-month period ended June 30, 2016 $	Three-month period ended June 30, 2015 $	Six-month period ended June 30, 2016 $	Six-month period ended June 30, 2015 $
Operating income as per IFRS	14,428	22,824	32,264	34,031
Share-based compensation	5,127	535	8,805	3,297
Adjusted operating income	**19,555**	23,359	**41,069**	37,328

17. Additional Information and Continuous Disclosure

This MD&A has been prepared as of August 9, 2016. Additional information on us is available through regular filings of press releases, financial statements and our Annual Information Form on SEDAR (www.sedar.com). These documents and other information about SEMAFO may also be found on our web site at 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 “pursuing”, “growth”, “opportunities”, “in line”, “expected”, “estimated”, “by year-end”, “will”, “further” 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 receive the Natougou permit by year-end 2016, the ability to obtain site delivery of long-lead comminution equipment in H2 2017, the ability to achieve Yama's total strip ratio of 11:1 and average mill recovery rate of 93%, the ability of the Phase II airborne magnetic survey to further enhance our understanding of the Tapoa permit, the ability to meet Natougou's initial estimated capital expenditures of $219 million, the ability to meet Natougou's first three years average annual production of over 226,000 ounces at a total cash cost of $283 per ounce and all-in sustaining cost of $374 per ounce, Natougou's ability to have the anticipated NPV and IRR at a gold price of $1,100 and $1,200, respectively, the ability to start Natougou's construction by year-end 2016, 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. Documents are also available on our website at www.semafo.com. We disclaim any obligation to update or revise these forward-looking statements, except as required by applicable law.