SEMAFO Inc.

Management's Discussion and Analysis
June 30, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

SEMAFO (the "Corporation") is a Canadian-based mining company with gold production and exploration activities in West Africa. The Corporation and its subsidiaries currently operate the Mana Mine in Burkina Faso, which includes the high-grade satellite Siou and Fofina deposits. SEMAFO is committed to evolve in a conscientious manner through the responsible development of its high potential Mana property. 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 to enable readers to assess material changes in financial condition and results of operations for the three-month and six-month periods ended June 30, 2014 compared to the previous year. This MD&A, prepared as of August 6, 2014, is intended to complement and supplement our Condensed Interim Consolidated Financial Statements (the "financial statements") as at June 30, 2014. 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 June 30,		Six-month period ended June 30,	
	2014	2013[5,6]	2014	2013[5,6]
Gold ounces produced	**72,700**	41,500	**107,800**	84,200
Gold ounces sold	**68,200**	39,400	**97,600**	84,300
(in thousands of dollars, except amounts per ounce, per tonne and per share)				
From Continuing Operations				
Revenues – Gold sales	**87,761**	53,781	**126,234**	126,359
Operating income	**20,665**	9,240	**5,986**	30,284
Net income (loss) from continuing operations attributable to equity shareholders	**12,974**	(12,812)	**31**	(1,314)
Basic earnings (loss) per share from continuing operations	**0.05**	(0.05)	**–**	–
Diluted earnings (loss) per share from continuing operations	**0.05**	(0.05)	**–**	–
Cash flow from operating activities from continuing operations[1]	**37,618**	21,201	**39,760**	49,232
Operating cash flow per share from continuing operations[2]	**0.14**	0.08	**0.14**	0.18
Average realized selling price (per ounce)	**1,287**	1,365	**1,293**	1,499
Cash operating cost (per ounce produced)[3]	**475**	604	**631**	611
Cash operating cost (per tonne processed)[3]	**48**	36	**50**	36
Total cash cost (per ounce sold)[4]	**602**	675	**748**	693
From Discontinued Operations				
Net loss from discontinued operations attributable to equity shareholders[7]	**(9,952)**	(38,246)	**(11,339)**	(59,904)
Total				
Net income (loss) attributable to equity shareholders	**3,022**	(51,058)	**(11,308)**	(61,218)
Basic earnings (loss) per share	**0.01**	(0.19)	**(0.04)**	(0.22)
Diluted earnings (loss) per share	**0.01**	(0.19)	**(0.04)**	(0.22)

1 Cash flow from operating activities from continuing operations excludes changes in non-cash working capital items.

2 Operating cash flow per share from continuing operations is 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 20.

3 Cash operating cost is a non-IFRS financial performance measure with no standard definition under IFRS and is calculated using ounces produced and tonnes processed. See the "Non-IFRS financial performance measures" section of this MD&A, note 20.

4 Total cash cost is a non-IFRS financial performance measure with no standard definition under IFRS and represents the mining operation expenses and government royalties per ounce sold.

5 Amounts have been adjusted for the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*.

6 Amounts have been adjusted to reflect the impact of discontinued operations.

7 The three-month and six-month periods include a non-cash amount of $10,737,000 and $9,691,000, respectively, regarding the reversal of the non-controlling interest as a result of the sale of the Kiniero Mine.

SECOND QUARTER 2014 IN REVIEW

As a result of reworking our mine plan sequence in the first quarter, we delivered the expected strong second quarter in terms of production and total cash costs by achieving the full mining rate at Siou and Fofina.

- Gold production of 72,700 ounces at a cash operating cost[1] of $475 per ounce compared to 41,500 ounces at $604 per ounce for the same period in 2013
- Gold sales of $87.8 million, a 63% increase compared to the same period in 2013
- Operating income from continuing operations of $20.7 million, a 124% increase relative to the same period in 2013
- Net income from continuing operations attributable to equity shareholders of $13.0 million or $0.05 per share compared to net loss of $12.8 million or $0.05 per share for the same period in 2013
- Cash flow from operating activities from continuing operations[2] of $37.6 million or $0.14 per share[3] compared to $21.2 million or $0.08 per share for the same period in 2013
- Cash and cash equivalents as at June 30, 2014 totalled $93.2 million
- Initial Siou infill drilling results in line with expectations
- Commenced exploration activities on the Banfora Gold Belt

[1] Cash operating cost is a non-IFRS financial performance measure with no standard definition under IFRS and is calculated using ounces produced. See the "Non-IFRS financial performance measures" section of this MD&A, note 20.

[2] Cash flow from operating activities from continuing operations excludes changes in non-cash working capital items.

[3] Operating cash flow per share from continuing operations is 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 20.

2. Key Economic Factors

Price of Gold

During the second quarter of 2014, the price of gold, based on the London Gold Fix PM, fluctuated from a high of $1,326 to a low of $1,243 per ounce. The average market gold price in the second quarter of 2014 was $1,288 per ounce compared to $1,415 per ounce for the same period in 2013, representing a decrease of $127 or 9%.

In the second quarter of 2014, our average realized selling price was $1,287 per ounce compared to the average London Gold Fix of $1,288 per ounce.

	2014		2013	
	Q2	Q1	Q2	Q1
(in dollars per ounce)				
Average London Gold Fix	1,288	1,293	1,415	1,632
Average realized selling price	1,287	1,309	1,365	1,616

Cost Pressures

The Corporation has been 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 $109 per barrel in the second quarter of 2014 compared to $103 per barrel in the second quarter of 2013.

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.

In the second quarter of 2014, the US dollar was weaker relative to the Euro when compared to the second quarter of 2013. Therefore, in the second quarter of 2014, the foreign exchange fluctuation negatively impacted our cash operating cost[1].

[1] Cash operating cost is a non-IFRS financial performance measure with no standard definition under IFRS and is calculated using ounces produced and tonnes processed. See the "Non-IFRS financial performance measures" section of this MD&A, note 20.

3. Consolidated Results and Mining Operations from Continuing Operations

Operating Highlights from Continuing Operations

	Three-month period ended June 30,			Six-month period ended June 30,		
	2014	2013[3,4]	Variation	2014	2013[3,4]	Variation
Gold ounces produced	**72,700**	41,500	75%	**107,800**	84,200	28%
Gold ounces sold	**68,200**	39,400	73%	**97,600**	84,300	16%
(in thousands of dollars, except amounts per ounce, per tonne and per share)						
Revenues – Gold sales	**87,761**	53,781	63%	**126,234**	126,359	–
Mining operation expenses (excluding government royalties)	**37,293**	23,863	56%	**67,509**	52,005	30%
Government royalties	**3,745**	2,731	37%	**5,513**	6,425	(14%)
Operating income	**20,665**	9,240	124%	**5,986**	30,284	(80%)
Impairment of investment in GoviEx	**–**	19,600	–	**–**	19,600	–
Income tax expense	**5,421**	1,303	316%	**4,026**	7,911	(49%)
Net income (loss) from continuing operations attributable to equity shareholders	**12,974**	(12,812)	–	**31**	(1,314)	–
Basic earnings (loss) per share from continuing operations	**0.05**	(0.05)	–	**–**	–	–
Diluted earnings (loss) per share from continuing operations	**0.05**	(0.05)	–	**–**	–	–
Cash flow from operating activities from continuing operations[1]	**37,618**	21,201	77%	**39,760**	49,232	(19%)
Operating cash flow per share from continuing operations[2]	**0.14**	0.08	75%	**0.14**	0.18	(22%)

1 Cash flow from operating activities from continuing operations excludes changes in non-cash working capital items.
2 Operating cash flow per share from continuing operations is 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 20.
3 Amounts have been adjusted for the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*.
4 Amounts have been adjusted to reflect the impact of discontinued operations.

3. Consolidated Results and Mining Operations from Continuing Operations (continued)

Second Quarter 2014 v. Second Quarter 2013

- During the second quarter of 2014, gold sales amounted to $87,761,000 compared to $53,781,000 for the same period in 2013. The 63% increase is attributable to higher volume sold following production from the high-grade Siou and Fofina deposits despite a 6% decrease in the average selling price. The variation between gold ounces sold and gold ounces produced during the quarter is due to the timing of shipments.
- The increase in mining operation expenses reflects higher volume sold totalling 68,200 ounces during the second quarter of 2014 compared to 39,400 ounces in 2013.
- Higher government royalties are a direct result of higher revenues.
- The 124% improvement in our operating income compared to the same period in 2013 is due to higher revenues.
- During the second quarter of 2013, following the issuance of a technical economic analysis, an impairment of our investment in GoviEx Uranium Inc. ("GoviEx") of $19,600,000 was recorded.
- The increase in income tax expense in the second quarter of 2014 compared to the same period in 2013 is due to the increase in taxable income at the Mana Mine.
- As a result of the foregoing, net income from continuing operations attributable to equity shareholders increased to $12,974,000 and cash flow from operating activities from continuing operations[1] reached $37,618,000 in the second quarter of 2014.

First Six Months of 2014 v. First Six Months of 2013

- Mining operating expenses increased during the first half of 2014 compared to the same period in 2013 as a result of the higher gold ounces sold.
- For the six-month period ended June 30, 2014, operating income decreased compared to the same period in 2013 as a result of our focus on accelerating the development of Siou and Fofina. As expected, we had a weak first quarter in terms of production. Our first quarter operations have served as a catalyst for the remainder of the year as shown by our results for the second quarter of 2014. Moreover, share-based compensation expenses increased to $5,738,000 from $43,000 in 2013 due to an important increase in our share price.
- During the second quarter of 2013, following the issuance of a technical economic analysis, an impairment of our investment in GoviEx of $19,600,000 was recorded.
- The decrease in income tax expense in the first six months of 2014 compared to the expense in the same period in 2013 is due to lower taxable income at the Mana Mine.

[1] Cash flow from operating activities from continuing operations excludes changes in non-cash working capital items.

4. Operating Income (Loss) by Segment

(in thousands of dollars)	Three-month period ended June 30, 2014	2013[1]	Variation	Six-month period ended June 30, 2014	2013[1]	Variation
Mana Mine, Burkina Faso	**27,341**	12,592	117%	**19,733**	39,023	(49%)
Other exploration	**–**	–	–	**–**	–	–
Corporate and other	**(6,676)**	(3,352)	(99%)	**(13,747)**	(8,739)	(57%)
	20,665	9,240	124%	**5,986**	30,284	(80%)

The composition of the reportable segments was modified during the second quarter of 2014 in order to add a new segment, "Other exploration", which represents exploration activities outside of Mana properties.

During 2013, we also modified the reportable segments to reflect the impact of discontinued operations.

[1] Amounts have been adjusted for the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* and to reflect the impact of discontinued operations.

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

Mining Operations

Mana, Burkina Faso

	Three-month period ended June 30,			Six-month period ended June 30,		
	2014	2013[5]	Variation	2014	2013[5]	Variation
Operating Data						
Ore mined (tonnes)	**617,700**	741,100	(17%)	**1,084,900**	1,416,300	(23%)
Ore processed (tonnes)	**723,900**	712,100	2%	**1,365,900**	1,424,000	(4%)
Head grade (g/t)	**3.37**	2.00	69%	**2.69**	2.10	28%
Recovery (%)	**93**	85	9%	**91**	87	5%
Gold ounces produced	**72,700**	41,500	75%	**107,800**	84,200	28%
Gold ounces sold	**68,200**	39,400	73%	**97,600**	84,300	16%
Financial Data (in thousands of dollars)						
Revenues – Gold sales	**87,761**	53,781	63%	**126,234**	126,359	–
Mining operations expenses (excluding government royalties)	**37,293**	23,863	56%	**67,509**	52,005	30%
Government royalties	**3,745**	2,731	37%	**5,513**	6,425	(14%)
Depreciation of property, plant and equipment	**18,349**	14,455	27%	**31,317**	27,670	13%
General and administrative	**963**	117	723%	**2,092**	845	148%
Corporate social responsibility expenses[1]	**70**	23	204%	**70**	391	(82%)
Segment operating income	**27,341**	12,592	117%	**19,733**	39,023	(49%)
Statistics (in dollars)						
Average realized selling price (per ounce)	**1,287**	1,365	(6%)	**1,293**	1,499	(14%)
Cash operating cost (per ounce produced)[2]	**475**	604	(21%)	**631**	611	3%
Cash operating cost (per tonne processed)[2]	**48**	36	33%	**50**	36	39%
Total cash cost (per ounce sold)[3]	**602**	675	(11%)	**748**	693	8%
Depreciation (per ounce sold)[4]	**269**	367	(27%)	**321**	328	(2%)

1 Corporate social responsibility expenses exclude contributions and projects sponsored through *Fondation SEMAFO.*
2 Cash operating cost is a non-IFRS financial performance measure with no standard definition under IFRS and is calculated using ounces produced and tonnes processed. See the "Non-IFRS financial performance measures" section of this MD&A, note 20.
3 Total cash cost is a non-IFRS financial performance measure with no standard definition under IFRS and represents the mining operation expenses and the government royalties per ounce sold.
4 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.
5 Amounts have been restated for the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*.

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

Mining Operations (continued)

Mana, Burkina Faso (continued)

Second Quarter 2014 v. Second Quarter 2013

- A strong second quarter in terms of production and total cash costs due to achieving the full mining rate at Siou and ramping up production at Fofina. Considering the notable quarter and despite the rainy season in the third quarter, we expect to attain the upper end of our 2014 production guidance of between 200,000 and 225,000 ounces of gold and the lower end of our 2014 total cash cost[1] guidance of between $695 and $745 per ounce.
- For the three-month period ended June 30, 2014, a total of 617,700 tonnes of ore and 4,537,100 tonnes of waste material were extracted from the Wona-Kona, Siou and Fofina pits, resulting in a stripping ratio of 7.3:1. In addition, during the stripping phase, 2,732,000 tonnes of waste material were extracted from the Siou pit and 1,407,000 tonnes of waste material were extracted from the Fofina pit. No stripping was carried out at the Wona-Kona pit. This compares to 741,100 of ore and 2,289,600 tonnes of waste material extracted from the Wona-Kona pit in the second quarter of 2013, which resulted in a stripping ratio of 3.1:1. In the second quarter of 2013, 7,706,000 tonnes of waste material were also extracted from the Wona-Kona pit during the stripping phase.
- The 69% increase in head grade in the second quarter of 2014 reflects the higher grade extracted from our two new open pits, Siou and Fofina. For the corresponding period in 2013, ore was sourced exclusively from the Wona-Kona pit. The head grade at Fofina in the second quarter was higher than anticipated due to the occurrence of an enriched zone (supergene) on surface. In the coming quarters, we anticipate that the supergene layer will have a lesser impact at depth.
- The 9% increase in the recovery rate is due to the processing of ore sourced from Siou and Fofina compared to bedrock from the Wona-Kona pit during the second quarter of 2013.
- The 75% increase in gold ounces produced and sold is a direct result of the higher head grade and higher gold recovery from the Siou and Fofina pits.
- The depreciation of property, plant and equipment increased by 27% as a result of the increase in gold ounces produced. The depreciation per ounce sold decreased due to a reduction in stripping costs.
- As a result of higher head grade, cash operating cost per ounce produced and total cash cost per ounce sold decreased.
- The increase in our cash operating cost per tonne processed is mainly due to a higher stripping ratio following production start-up at the Siou deposit, as well as additional haulage costs to truck the ore from both satellite deposits to the plant. The Siou and Fofina deposits are located some 15 kilometers from the Mana processing plant.

First Six Months of 2014 v. First Six Months of 2013

- For the six-month period ended June 30, 2014, a total of 1,084,900 tonnes of ore and 7,986,400 tonnes of waste material were extracted from the Wona-Kona, Siou and Fofina pits, resulting in a stripping ratio of 7.4:1. In addition, during the stripping phase, 6,589,600 tonnes of waste material were extracted from the Siou pit, 1,830,300 tonnes from the Fofina pit and 666,900 tonnes from the Wona-Kona pit. This compares to 1,416,300 tonnes of ore and 4,428,500 tonnes of waste material extracted from the Wona-Kona pit during the same period in 2013, which resulted in a stripping ratio of 3.1:1. In addition, 15,606,500 tonnes of waste material were extracted from the Wona-Kona pit during the stripping phase in 2013.
- The increase in head grade reflects the higher grade extracted from our two new open pits, Siou and Fofina, compared to ore sourced exclusively from the Wona-Kona pit during the first six months of 2013.
- The increase in gold ounces produced and sold is a direct result of the higher head grade and a higher gold recovery from the Siou and Fofina pits.
- Our cash operating cost per tonne processed increased to $50 as a result of a higher stripping ratio following production start-up at the Siou deposit, as well as additional haulage costs to truck the ore from both satellite deposits to the plant.
- For the six-month period ended June 30, 2014, cash operating cost was stable compared to the same period in 2013 due to a strong second quarter offsetting a weaker first quarter in 2014. As a result of our focus on accelerating the development of Siou and Fofina, and as expected, we had a weak first quarter in terms of production. Our first quarter operations have therefore served as a catalyst for the remainder of the year as seen in our results for the second quarter of 2014.

[1] Total cash cost is a non-IFRS financial performance measure with no standard definition under IFRS and represents the mining operation expenses and government royalties per ounce sold.

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

Mining Operations (continued)

Mana, Burkina Faso (continued)

Replacement of the SAG Mill Shell

As a precautionary measure, we have initiated a process to replace the used shell of the semi-autogenous grinding ("SAG") mill at Mana. The SAG mill will be shut down up to five weeks at the beginning of the first quarter of 2015. During the shutdown, we will continue to operate, processing approximately 3,600 tonnes per day of high-grade ore from the Siou and Fofina pits. As a consequence of the shutdown, we will produce approximately 6,500 less ounces from the lower-grade Wona-Kona pit than we would have otherwise produced in 2015. The total cost of the shell replacement will not impact the 2014 capital expenditures guidance.

Exploration Programs

The Corporation continues to focus on exploration in the vicinity of the Mana processing plant, more specifically on the Siou sector, Pompoi Nord, Pompoi and in the north, on the Bilakongo and Kana permits. An exploration budget of $18.5 million has been allocated for these areas where currently nine auger drills, two reverse-circulation drilling rigs and four diamond drill rigs are in operation. To date, approximately forty percent of the regional program has been completed.

Initial results from auger drilling enabled us to identify targets for reverse-circulation drilling, which commenced during the second quarter on the 15-kilometer geochemical anomaly trend to the east of Mana. The ongoing follow-up RC exploration program has returned some good results, more specifically on two drill holes 1.2 kilometers apart in the Pompoi village sector: hole MRC14-3615 with 6.45 g/t Au over 4 meters and hole MRC14-3724 with 3.12 g/t Au over 8 meters. Two RC rigs are active in the area, and results should be forthcoming in the second half of the year.

The $18.5 million exploration budget for the Mana area includes a $4.5 million provision for an infill core drilling program at Siou. This program, which was initiated at the beginning of June, is being carried out between 180 and 225 meters vertically in the in-pit resources shell with the objective of replacing and increasing the reserves base at Siou by year-end. Initial results to date have yielded very strong results that confirm the continuity of the zone widths and grades. Some drill results exceeded our expectations such as hole WDC787 (8.38 g/t Au over 17.5 meters).

Since its commencement, the infill drill program has passed from two core rigs to a current total of four core rigs. We have received final assay results from a total of 4,172 meters in 15 holes. Drill result highlights to date are presented in the following table.

Hole No.	Section (N)	From	To	Au (g/t)*	Length**	Au g/t (uncut)
WDC779	1 321 150	169.20	181.00	9.41	11.80	15.28
WDC780	1 321 050	194.00	200.00	2.20	6.00	
WDC783	1 321 200	234.20	255.00	4.08	20.80	5.7
WDC785	1 321 050	207.00	217.40	7.59	10.40	9.43
WDC786	1 321 150	228.50	239.30	11.46	10.80	12.77
WDC787	1 321 050	249.00	266.50	8.38	17.50	10.49
WDC790	1 321 425	222.90	227.80	9.83	4.90	14.61
WDC793	1 322 125	209.60	216.35	7.19	6.75	
WDC795	1 322 050	214.00	225.50	4.35	11.50	

* Individual assay results are cut at 40 g/t Au.
** Core length. True widths are expected to represent approximately 70% to 90% of the core length on average.

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

Exploration Programs (continued)

As shown on the longitudinal section of Zone 9 (Figure 1), the targeted infill drilling area is located immediately below the current open pit reserves design and covers an additional 45 vertical meters of potential reserves. Although Zone 9 is the main target, other zones (Siou, Zone 55 and Zone 56) were crossed, but are not expected to add significantly to the reserves base. To date, both grade and thickness from Zone 9 are in line with expectations. Nonetheless, some holes did return higher than expected results, particularly in the southern portion of the zone. A two-hole deep drilling program was conducted in order to test the south extension of the Zone 9 mineralization (WDC788 and WDC 789). Results of these two holes suggest that the ore shoot plunge is shallower than originally expected. Drilling is ongoing in order to test this hypothesis. Further drilling to test the depth extension of Zone 9 in the northern part of the deposit is also scheduled for the second half of 2014.

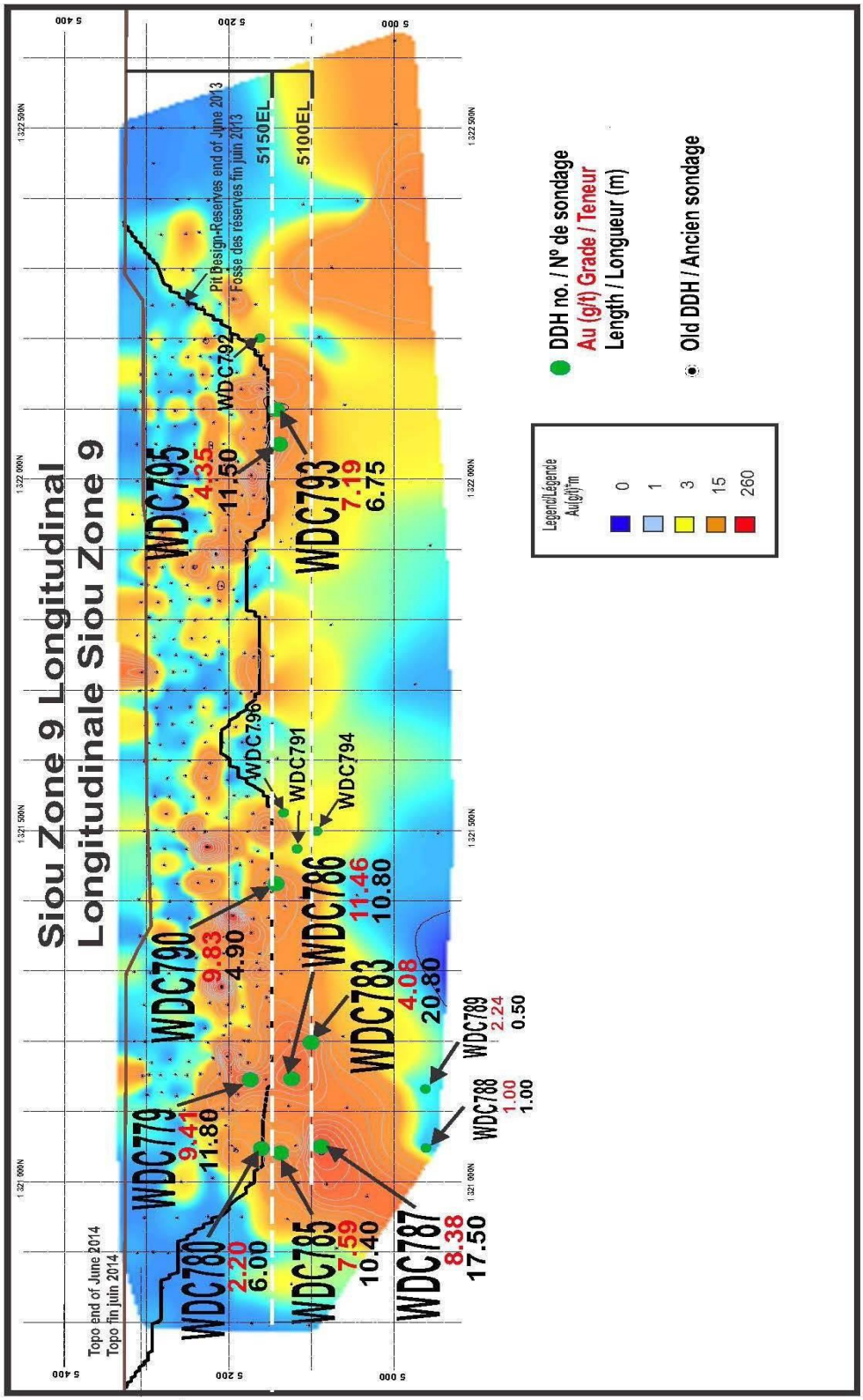
Other Exploration Outside of Mana

During the second quarter, we entered into agreements for the working rights and rights to acquire 10 exploration permits covering 1,446 square kilometers in the Banfora Gold Belt 200 kilometers southwest of Mana. We have allocated $1.5 million to this exploration program, which currently employs four auger drills on the north and south ends of the Banfora Belt. Priority target areas are along the main shear zones where there is evidence of geochemical anomalies and artisanal mining. Drill results are anticipated in the second half of 2014.

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

Exploration Programs (continued)

Figure 1



5. Other Elements of the Statement of Income (Loss)

General and Administrative Expenses

(in thousands of dollars)	Three-month period ended June 30, 2014	Three-month period ended June 30, 2013[1]	Six-month period ended June 30, 2014	Six-month period ended June 30, 2013[1]
Corporate expenses	**3,245**	3,856	**7,391**	7,990
Sites – Administrative	**963**	117	**2,092**	845
	4,208	3,973	**9,483**	8,835

General and administrative expenses totalled $4,208,000 for the second quarter of 2014, compared to $3,973,000 for the same period in 2013. Corporate expenses decreased mainly due to our optimization efforts. The increase in site administrative expense is due to indirect taxes amounting to $398,000, a consequence of being no longer exempt from these taxes under our mining agreement with the Government of Burkina Faso.

For the six-month period ended June 30, 2014, general and administrative expenses totalled $9,483,000 compared to $8,835,000 for the same period in 2013. The decrease in corporate expenses is mainly due to our optimization efforts and is partially offset by non-recurring corporate expense of $331,000 related to the exercise of options during the first six months of 2014 (2013: nil). The increase in site administrative expense is due to indirect taxes amounting to $819,000, a consequence of being no longer exempt from these taxes under our mining agreement with the Government of Burkina Faso.

Corporate Social Responsibility Expenses

For the second quarter of 2014, corporate social responsibility expenses totalled $227,000 (2013: $28,000), representing contributions made to *Fondation SEMAFO.*

For the six-month period ended June 30, 2014, corporate social responsibility expenses representing contributions made to *Fondation SEMAFO* totalled $227,000. For the same period in 2013, corporate social responsibility expenses totalled $727,000, including contributions of $336,000 made to *Fondation SEMAFO.*

Share-based Compensation

For the second quarter of 2014, our share-based compensation expenses amounted to $2,958,000 compared to a credit of $670,000 for the same period in 2013. Our share-based compensation expenses included a $40,000 charge (2013: $114,000) related to our stock option plans and a charge of $2,918,000 (2013: credit of $784,000) for our Restricted Share Unit Plan ("Unit Plan"). The $2,918,000 charge related to the Unit Plan comprised an $880,000 expense for restricted share units outstanding and a $2,038,000 charge due to an increase in our share price.

For the six-month period ended June 30, 2014, our share-based compensation expenses amounted to $5,738,000 compared to $43,000 for the same period in 2013. Our share-based compensation expenses included a $580,000 charge (2013: $745,000) related to our stock option plans and a charge of $5,158,000 (2013: credit of $702,000) for our Restricted Share Unit Plan. The $5,158,000 charge related to the Unit Plan comprised a $1,974,000 expense for restricted share units outstanding and a $3,184,000 expense due to a change in fair value of our share price.

Income Tax Expense

The income tax expense increase in the second quarter of 2014 compared to the expense in the same period in 2013 is due to the increase in our taxable income at the Mana Mine.

[1] Amounts have been adjusted to reflect the impact of discontinued operations.

5. Other Elements of the Statement of Income (Loss) (continued)

Comprehensive Income Attributable to Non-Controlling Interests

(in thousands of dollars)	Three-month period ended June 30, 2014	Three-month period ended June 30, 2013	Six-month period ended June 30, 2014	Six-month period ended June 30, 2013
Government of Burkina Faso – 10% in SEMAFO Burkina Faso S.A.	**1,942**	1,241	**1,320**	3,150
Government of Niger - 20% in Société des Mines du Liptako (SML) S.A.[1]	**–**	(3,499)	**–**	(11,468)
Government of Guinea – 15% in SEMAFO Guinée S.A.[2]	**10,737**	(5,137)	**9,691**	(5,277)
	12,679	(7,395)	**11,011**	(13,595)

The non-controlling interest of the Government of Burkina Faso is directly linked to our subsidiary's net income (loss).

As a result of the sale of the Kiniero Mine, non-controlling interest was reversed during the second quarter of 2014.

[1] SML was disposed of on December 2, 2013. Please refer to note 9 of the consolidated financial statements.
[2] SEMAFO Guinée S.A. was disposed of on May 22, 2014. Please refer to note 9 of the consolidated financial statements.

5. Other Elements of the Statement of Income (Loss) (continued)

Discontinued Operations

The analysis of the result of discontinued operations of the Kiniero Mine for the three-month and six-month periods ended June 30, 2014 is as follows:

(in thousands of dollars, except amounts per ounce)	Three-month period ended June 30, 2014	Six-month period ended June 30, 2014
Revenue – Gold sales	**–**	2,236
Mining operation expenses	**–**	1,880
Other	**177**	972
Loss on remeasurement	**–**	1,994
Net loss from discontinued operations before income taxes and gain on disposal	**(177)**	(2,610)
Gain on disposal of discontinued operations (net of tax of nil)	**962**	962
Net income (loss) for the period from discontinued operations	**785**	(1,648)
Attributable to:		
Equity shareholders	**(9,952)**	(11,339)
Non-controlling interest	**10,737**	9,691
Operating Data		
Gold ounces produced	–	1,300
Gold ounces sold	–	1,800

Sale of the interest in the Kiniero Mine

On May 22, 2014, the Corporation sold its 85% interest in SEMAFO Guinée S.A., owner of the Kiniero Mine, to New Dawn Mining, a private company.

On closing of the transaction, the Corporation received from New Dawn Mining a 1% to 1.5% sliding-scale net smelter return ("NSR") royalty on gold produced from the Kiniero plant. The NSR of 1% is payable only if the spot price of gold is at or between $1,325 and $1,500. If the spot price is at or greater than $1,500, the NSR payable will be 1.5%.The NSR is capped at $6 million. New Dawn Mining assumes responsibility for environmental remediation, pending and potential litigation in addition to all liabilities.

During the six-month period ended June 30, 2014, the Corporation recognized a gain on disposal of $962,000 that resulted from the calculation of consideration received less cost to sale in the transaction exceeding the carrying value of its interest in the Kiniero Mine net liabilities measured as at May 22, 2014. As a result of the sales transaction, the Corporation reversed the non-controlling interest of $9,691,000, a non-cash item. The NSR is not valued in the calculation of the fair value of the consideration received as it is considered a form of retained interest in the Kiniero Mine. As a result of this sale, the Corporation ceased to have control over the Kiniero Mine and does not consolidate the entity anymore. The result of operations of the Kiniero Mine prior to the sale is classified as discontinued operations.

6. Other Comprehensive Income (Loss)

Other comprehensive income amounted to nil for the three-month and six-month periods ended June 30, 2014, compared to nil for the same period in 2013.

7. Cash Flow

The following table summarizes our cash flow activities:

(in thousands of dollars)	Three-month period ended June 30, 2014	Three-month period ended June 30, 2013[1,2]	Six-month period ended June 30, 2014	Six-month period ended June 30, 2013[1,2]
Cash flow from operating activities				
Operations	**37,618**	21,201	**39,760**	49,232
Working capital items	**12,305**	(3,531)	**5,117**	(9,535)
Operating activities	**49,923**	17,670	**44,877**	39,697
Financing activities	**1,041**	–	**3,994**	(5,384)
Investing activities	**(18,733)**	(33,490)	**(36,395)**	(62,830)
Change in cash and cash equivalents during the period from continuing operations	**32,231**	(15,820)	**12,476**	(28,517)
Change in cash and cash equivalents during the period from discontinued operations	**(1,094)**	(4,221)	**(2,088)**	4,609
Effect of exchange rate changes on cash and cash equivalents	**143**	(819)	**239**	870
Cash and cash equivalents – beginning of period	**61,946**	137,273	**82,599**	139,451
Cash and cash equivalents – end of period	**93,226**	116,413	**93,226**	116,413

Operating

Second Quarter 2014

In the second quarter of 2014, operating activities, before working capital items, generated cash flows of $37,618,000 compared to $21,201,000 in 2013, reflecting higher gold sales. Working capital items generated liquidities of $12,305,000 in the second quarter of 2014, mainly due to higher trade payables and accrued liabilities as a result of the timing of payments, while liquidities of $3,531,000 were required in the second quarter of 2013.

First Six Months of 2014

In the six-month period ended June 30, 2014, operating activities, before working capital items, generated cash flows of $39,760,000 mainly due to a 16% increase in gold ounces sold compared to the same period in 2013. Working capital items generated liquidities of $5,117,000 in the first six months of 2014, mainly due to higher trade payables and accrued liabilities and partially offset by an increase in income tax receivable, while liquidities of $9,535,000 were required in 2013.

Further details regarding the changes in non-cash working capital items are provided in note 21 a) of the financial statements.

[1] Amounts have been adjusted for the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*. Please refer to note 5 of the financial statements.

[2] Amounts have been adjusted to reflect the impact of discontinued operations.

7. Cash Flow (continued)

Financing

Second Quarter 2014

In the second quarter of 2014, cash flow from financing activities amounted to $1,041,000, representing the exercise of 633,000 options, compared to nil in the second quarter of 2013.

First Six Months of 2014

In the six-month period ended June 30, 2014, cash flow from financing activities amounted to $3,994,000 compared to cash flow used in financing activities amounting to $5,384,000 in the same period in 2013. A total of 2,165,000 options were exercised for a cash consideration of $3,994,000 compared to the same period in 2013, during which 50,000 options were exercised for a cash consideration of $108,000. In addition, during the first quarter of 2013, dividends of $5,492,000 were paid to equity shareholders.

Investing

Property, plant and equipment

Investments totalled $18,092,000 and $35,754,000 for the three-month and six-month periods, respectively, ended June 30, 2014, compared to $28,060,000 and $56,327,000 for the same periods in 2013. The following table summarizes our 2014 investing activities.

(in thousands of dollars)	Three-month period June 30, 2014	Six-month period June 30, 2014
Sustaining capital	**2,084**	4,022
Stripping cost	**4,441**	10,006
Subtotal sustaining capital expenditures	**6,525**	14,028
Siou development	**1,560**	6,006
Fofina development	**2,636**	4,999
Subtotal growth capital expenditures[1]	**4,196**	11,005
Exploration expenditure	**6,101**	9,451
Permits	**1,270**	1,270
Total	**18,092**	35,754

In the second quarter of 2013, liquidities of $28,060,000 were invested as follows: $9,519,000 for exploration expenditures, $1,451,000 for expansion-related costs at the Mana Mine, $1,078,000 for mining equipment, $13,786,000 for stripping costs as well as $2,226,000 for sustainable capital expenditures.

For the six-month period ended June 30, 2013, liquidities of $56,327,000 were invested as follows: $17,192,000 for exploration expenditures, $3,963,000 for expansion related costs at the Mana Mine, $1,783,000 for mining equipment, $26,324,000 for stripping costs as well as $7,065,000 for sustainable capital expenditures.

Restricted cash

In the second quarter of 2014, the $641,000 increase in restricted cash is due to the funding of our asset retirement obligation in Burkina Faso, compared to $1,380,000 for the same period in 2013 due to the special compensation arrangement with the former President and Chief Executive Officer.

For the six-month period ended June 30, 2014, the $641,000 increase in restricted cash is due to the funding of our asset retirement obligation in Burkina Faso. In the second quarter of 2013, the $2,453,000 increase was due to the funding of our asset retirement obligation in Burkina Faso and the special compensation arrangement with the former President and Chief Executive Officer.

Sonabel Advance

In the second quarter of 2013, an advance of $4,050,000 was made to Sonabel.

[1] Of the $11,005,000 assigned to the development of Siou and Fofina, $4,355,000 have been spent on pre-stripping activities.

8. Financial Position

As at June 30, 2014, we maintained a strong financial position with $93,226,000 in cash and cash equivalents and no long-term debt. With our existing cash balances and forecasted cash flow from operations, we are well positioned to fund all of our cash requirements for 2014, which relate primarily to ongoing exploration programs and stripping activities.

(in thousands of dollars)	As at June 30, 2014	As at December 31, 2013
Current assets	**186,551**	173,039
Assets held for sale	**–**	4,140
Total current assets	**186,551**	177,179
Advance receivable	**3,116**	3,029
Restricted cash	**4,157**	3,516
Property, plant and equipment	**388,312**	382,534
Intangible asset	**1,288**	1,288
Total assets	**583,424**	567,546
Total liabilities	**73,319**	61,718
Equity attributable to equity shareholders	**485,445**	492,179
Non-controlling interest	**24,660**	13,649

As at June 30, 2014, our total assets amounted to $583,424,000 compared to $567,546,000 as at December 31, 2013. The increase is mainly due to the increase in cash and cash equivalents. The remaining portion of our asset base primarily comprises property, plant and equipment, reflecting the capital-intensive nature of our business.

As at June 30, 2014, our liabilities totalled $73,319,000, mainly comprising trade payables and accrued liabilities.

9. Financial Instruments

The nature and extent of risks arising from financial instruments are described in note 18 of the Corporation's 2013 annual consolidated financial statements. In the second quarter of 2014, 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.

10. 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, 2014 was $5,552,000 (December 31, 2013: $5,188,000). The estimated undiscounted value of this liability was $10,261,000 (December 31, 2013: $9,878,000). 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. In 2014, the Corporation was subject to a royalty rate of 4% and 5%, which was calculated using the retail market value of gold ounces sold at the time of shipment. In the second quarter of 2014, government royalties amounting to $3,745,000 (2013: $2,731,000) were paid to the Government of Burkina Faso. For the six-month period ended June 30, 2014, government royalties amounting to $5,513,000 (2013: $6,425,000) were paid to the Government of Burkina Faso.

Purchase Obligations
As at June 30, 2014, purchase commitments totalled $4,646,000. In addition, on October 1, 2011, the Corporation entered into an agreement with National Electricity Company Sonabel, in Burkina Faso, pursuant to which the Corporation will advance funds for the construction of a high-voltage transmission line. As at June 30, 2014, the Corporation is committed to advance a remaining amount of $5,130,000 (2,458,000,000 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 June 30, 2014, we were in compliance in all material respects with the obligations related to the ownership of our permits.

11. Critical Accounting Estimates and Judgements

The preparation of the Corporation's 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 the Corporation's financial statements were disclosed in note 7 to the Corporation's 2013 annual audited consolidated financial statements and they remain unchanged for the second quarter of 2014.

12. Significant Accounting Policies

The Corporation established its accounting policies and methods used in the preparation of its unaudited condensed interim consolidated financial statements for the second quarter of 2014 in accordance with IFRS. See note 3 to the Corporation's 2013 annual audited consolidated financial statements for more information about the significant accounting policies used to prepare the financial statements, as they remain unchanged for the second quarter of 2014.

13. New Accounting Standard Issued and in Effect

IFRIC 21, *Levies* ("IFRIC 21")

In May 2013, the International Accounting Standards Board ("IASB") issued IFRIC 21, which is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The adoption of IFRIC 21 for the annual period beginning January 1, 2014 did not affect the Corporation's condensed interim consolidated financial statements.

14. New Accounting Standard Issued but not yet in Effect

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

In November 2009 and October 2010, the IASB issued the first phase of IFRS 9. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9. The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized.

This standard is part of a wider project to replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. It also introduces additional changes relating to financial liabilities and aligns hedge accounting more closely with risk management. The mandatory effective date is not yet determined; however, early adoption of the new standard is still permitted. The Corporation does not intend to early adopt IFRS 9 in its consolidated financial statements for the annual period beginning January 1, 2014. The extent of the impact of 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.

15. 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 affects 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.

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 Resource Estimates

Reserves and resources are estimates based on limited information acquired through drilling and other 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.

15. 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.

Limited Property Portfolio

Currently, our only material mineral property 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 flow 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.

15. Risks and Uncertainties (continued)

Operational Risks (continued)

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, is responsible for the construction of a high-voltage transmission line which will connect our Mana mine to the National power grid. Accordingly, we cannot predict with certainty when the line will be built, commissioned and the extent of its reliability. Any delay in the construction or commissioning or regarding 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 and 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.

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.

15. 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 recent 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.

15. 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 controls policies and procedures will always protect us from recklessness, fraudulent behavior, dishonesty or other inappropriate acts. Violation or allege violation of anti-corruption laws could lead to civil and criminal fines and penalties, reputational damage and other consequences which may materially adversely affect our financial condition and results of operation.

16. Quarterly Information

	2014		2013[1,3]				2012[1,3]	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
(in thousands of dollars, except for amounts per share)								
Results from continuing operations								
Revenues – Gold sales	87,761	38,473	50,771	49,488	53,781	72,578	84,519	54,406
Operating income (loss)	20,665	(14,679)	(8,407)	(2,935)	9,240	21,044	23,932	4,857
Net income (loss) from continuing operations	14,916	(13,565)	(7,312)	(227)	(11,571)	13,407	17,835	844
Attributable to:								
- Equity shareholders	12,974	(12,943)	(7,098)	(815)	(12,812)	11,498	15,246	(218)
- Non-controlling interests	1,942	(622)	(214)	588	1,241	1,909	2,589	1,062
Basic earnings (loss) per share from continuing operations	0.05	(0.04)	(0.03)	–	(0.05)	0.04	0.06	–
Diluted earnings (loss) per share from continuing operations	0.05	(0.04)	(0.03)	–	(0.05)	0.04	0.06	–
Cash flow from operating activities from continuing operations[2]	37,618	2,142	12,172	16,158	21,201	28,031	38,301	14,695
Total results								
Net income (loss):	15,701	(15,998)	(4,337)	(4,815)	(58,453)	(16,360)	(36,087)	5,256
Attributable to:								
- Equity shareholders	3,022	(14,330)	(18,798)	(5,206)	(51,058)	(10,160)	(28,811)	5,532
- Non-controlling interests	12,679	(1,668)	14,461	391	(7,395)	(6,200)	(7,276)	(276)
Basic earnings (loss) per share	0.01	(0.05)	(0.07)	(0.02)	(0.19)	(0.04)	(0.11)	0.02
Diluted earnings (loss) per share	0.01	(0.05)	(0.07)	(0.02)	(0.19)	(0.04)	(0.10)	0.02

1 Amounts have been adjusted for the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*.
2 Cash flow from operating activities excludes changes in non-cash working capital items.
3 Amounts have been adjusted to reflect the impact of discontinued operations.

17. Information on Outstanding Shares

As at August 6, 2014, our share capital comprised 276,752,935 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 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 August 6, 2014, stock options allowing its holders to purchase 6,114,776 common shares were outstanding.

18. Additional Information

Exchange rates are as follows:

	CAD / USD $		EUR / USD $	
	2014	2013	2014	2013
December 31 (closing)	**–**	1.0636	**–**	0.7258
March 31 (closing)	**1.1053**	1.0156	**0.7259**	0.7787
June 30 (closing)	**1.0676**	1.0512	**0.7305**	0.7686
First quarter (average)	**1.1018**	1.0090	**0.7297**	0.7570
Second quarter (average)	**1.0900**	1.0229	**0.7287**	0.7662

19. Disclosure Controls and Procedures

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 the Corporation's disclosure controls and internal controls over financial reporting during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

20. 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 June 30,		Six-month period ended June 30,	
	2014	2013	**2014**	2013
Per Ounce Produced				
Gold ounces produced	72,700	41,500	107,800	84,200
(in thousands of dollars except per ounce)				
Mining operation expenses (relating to ounces sold)	41,038	26,594	73,022	58,430
Government royalties and selling expenses	(3,981)	(2,886)	(5,894)	(6,766)
Effects of inventory adjustments (doré bars and gold in circuit)	(2,498)	1,347	842	(189)
Operating costs (relating to ounces produced)	34,559	25,055	67,970	51,475
Cash operating cost (per ounce produced)	**475**	**604**	**631**	**611**

	Three month period ended June 30,		Six-month period ended June 30,	
	2014	2013	**2014**	2013
Per tonne processed				
Tonnes of ore processed	723,900	712,100	1,365,900	1,424,000
(in thousands of dollars except per tonne)				
Mining operation expenses (relating to ounces sold)	41,038	26,594	73,022	58,430
Government royalties and selling expenses	(3,981)	(2,886)	(5,894)	(6,766)
Effects of inventory adjustments (doré bars and gold in circuit)	(2,498)	1,752	842	203
Operating costs (relating to tonnes processed)	34,559	25,460	67,970	51,867
Cash operating cost (per tonne processed)	**48**	**36**	**50**	**36**

20. Non-IFRS Financial Performance Measures from Continuing Operations (continued)

Operating Cash Flow per Share

(in thousands except per share)	Three-month period ended June 30, 2014	Three-month period ended June 30, 2013[2,3]	Six-month period ended June 30, 2014	Six-month period ended June 30, 2013[2,3]
Cash flow from operating activities from continuing operations[1]	**37,618**	21,201	**39,760**	49,232
Weighted average number of outstanding common shares	**276,140**	273,268	**275,551**	273,258
Operating cash flow per share from continuing operations	**0.14**	0.08	**0.14**	0.18

21. Additional Information and Continuous Disclosure

This MD&A has been prepared as of August 6, 2014. Additional information on the Corporation is available through regular filings of press releases, financial statements and its 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.

22. 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", "pursuing", "growth", "expect", "attain", "guidance", "anticipate", "will", "up to", "objective", "potential", "suggest", "ongoing", "in order to", "hypothesis", "scheduled", "forecasted" 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 deliver on our strategic focus, the ability to attain the upper end of our 2014 production guidance of between 200,000 and 225,000 ounces of gold and the lower end of our 2014 total cash cost guidance of between $695 and $745 per ounce, the ability to maintain the shutdown of the SAG at five weeks, the ability to process 3,600 tonnes per day of the high-grade ore from the Siou and Fofina pits during the SAG shut-down, the ability of the infill core drilling program to replace and increase the reserves base at Siou, the ability to obtain drill results for the Banfora Gold Belt exploration program in the second half of 2014, the ability to fund all of our cash requirements for 2014 with our existing cash balances and forecasted cash flow from operations, 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.

[1] Cash flow from operating activities excludes changes in non-cash working capital items.
[2] Amounts have been adjusted for the adoption of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*. Please refer to note 5 of the consolidated financial statements.
[3] Amounts have been adjusted to reflect the impact of discontinued operations.