



ANNUAL REPORT

GEARING UP FOR GROWTH



INTERNATIONAL EXPERTISE®
HUMAN ADVOCACY



2017 ANNUAL REPORT

/ MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 deposit of Siou, and is targeting production start-up of the Boungou Mine in the third quarter of 2018. 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 risks and capital resources. This MD&A, prepared as of March 6, 2018, is intended to complement and supplement our Annual Audited Consolidated Financial Statements (the "financial statements") as at December 31, 2017. 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

	2017	2016	2015
Gold ounces produced	206,400	240,200	255,900
Gold ounces sold	205,300	240,600	258,600
(in thousands of dollars, except amounts per ounce, per tonne and per share)			
Revenues – Gold sales	258,993	300,483	300,129
Operating income.....	11,494	60,086	66,066
Net income attributable to equity shareholders	20,036	34,219	24,910
Basic earnings per share	0.06	0.11	0.09
Diluted earnings per share.....	0.06	0.11	0.09
Adjusted operating income ¹	10,659	70,989	65,973
Adjusted net income attributable to equity shareholders ¹	864	48,109	40,863
Per share ¹	—	0.15	0.14
Cash flows from operating activities ²	107,023	142,222	147,561
Per share ¹	0.33	0.45	0.51
Average realized selling price (per ounce).....	1,261	1,249	1,161
Cash operating cost (per tonne processed) ¹	46	43	47
Total cash cost (per ounce sold) ¹	655	548	493
All-in sustaining cost (per ounce sold) ¹	942	720	645
Total assets	1,028,363	895,276	781,513
Non-current liabilities.....	180,595	102,091	103,023

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 22.

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

1. Financial and Operating Highlights (continued)

Fourth Quarter Financial and Operating Highlights

	Three-month period ended December 31,		Variation
	2017	2016	
Gold ounces produced	49,500	55,100	(10%)
Gold ounces sold.....	49,200	57,100	(14%)
(in thousands of dollars, except amounts per ounce, per tonne and per share)			
Revenues – Gold sales	62,960	69,137	(9%)
Operating income	2,215	4,806	(54%)
Net income (loss) attributable to equity shareholders.....	1,649	(4,949)	—
Basic earnings (loss) per share	0.01	(0.02)	—
Diluted earnings (loss) per share ³	0.01	(0.02)	—
Adjusted operating income ¹	2,405	10,554	(77%)
Adjusted net income (loss) attributable to equity shareholders ¹	(315)	7,899	—
Per share ¹	—	0.02	(100%)
Cash flow from operating activities ²	25,409	30,362	(16%)
Per share ¹	0.08	0.09	(11%)
Average realized selling price (per ounce)	1,278	1,211	6%
Cash operating cost (per tonne processed) ¹	47	40	18%
Total cash cost (per ounce sold) ¹	667	571	17%
All-in sustaining cost (per ounce sold) ¹	982	694	41%

See the "Fourth Quarter Financial and Operating Results" section of this MD&A for more details, note 20.

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 22.

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

³ When there is a net loss attributable to equity shareholders, diluted loss per share is calculated from the basic weighted average number of outstanding common shares because the effect of options is anti-dilutive.

2017 – THE YEAR IN REVIEW

Mana and Corporate

- Addition of 188,000 ounces of reserves at Mana before depletion, mainly from Siou underground following Mana Pre-feasibility Study ("PFS")
 - Gold production of 206,400 ounces, a 14% decrease compared to 2016
 - Total cash cost¹ of \$655 per ounce sold and all-in-sustaining cost¹ of \$942 per ounce sold, which represent year-over-year increases of 20% and 31%, respectively
 - Gold sales of \$259.0 million compared to \$300.5 million in 2016
 - Operating income of \$11.5 million compared to \$60.1 million in 2016
 - Adjusted operating income¹ of \$10.7 million compared to \$71.0 million in 2016
 - Net income attributable to equity shareholders of \$20.0 million compared to \$34.2 million in 2016
 - Adjusted net income attributable to equity shareholders¹ of \$0.9 million or nil per share¹ compared to \$48.1 million or \$0.15 per share¹ in 2016
 - Cash flows from operating activities² of \$107.0 million or \$0.33 per share¹ compared to \$142.2 million or \$0.45 per share¹ in 2016
 - Drawdown of incremental \$60.0 million from Credit Facility with Macquarie Bank Limited in June 2017
-

FOURTH QUARTER 2017 REVIEW

- Gold production of 49,500 ounces compared to 55,100 ounces for the same period in 2016
 - Gold sales of \$63.0 million compared to \$69.1 million for the same period in 2016
 - Total cash cost¹ of \$667 per ounce sold and all-in sustaining cost¹ of \$982 per ounce sold compared to \$571 and \$694, respectively, for the same period in 2016
 - Operating income of \$2.2 million compared to \$4.8 million for the same period in 2016
 - Adjusted operating income¹ of \$2.4 million compared to \$10.6 million for the same period in 2016
 - Net income attributable to equity shareholders of \$1.6 million or 0.01 per share compared to net loss of \$4.9 million or loss of 0.02 per share for the same period in 2016
 - Adjusted net loss attributable to equity shareholders¹ of \$0.3 million or nil per share¹ compared to adjusted net income of \$7.9 million or \$0.02 per share¹ for the same period in 2016
 - Cash flows from operating activities² of \$25.4 million or \$0.08 per share¹ compared to \$30.4 million or \$0.09 per share¹ for the same period in 2016
-

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 performance measures" section of this MD&A, note 22.

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

Update of Boungou Mine Construction

As at January 31, 2018:

- Addition of 203,000 ounces of reserves at Boungou
 - Development on budget with \$171 million of the \$231 million capital expenditure incurred
 - Construction 83% completed
 - Completion of about 90% of structural steel, 85% of mechanical and 22% of piping installation
 - Tailings storage facility 72% completed
 - Completion of 81% of the fuel depot and 83% of the power plant
 - Pre-stripping 62% completed with 11.2 million of the projected 18 million tonnes extracted
 - 4.1 million man-hours have been worked without lost-time injury
-

2017 Objectives

2017 Achievements

Deliver a solid operational performance

- | | |
|---|--|
| <ul style="list-style-type: none"> ■ Revised production guidance at Mana of 190,000 - 205,000 oz at an all-in sustaining cost¹ of \$920-\$960 per ounce | <ul style="list-style-type: none"> ■ Production of 206,400 oz at an all-in sustaining cost¹ of \$942 per ounce |
|---|--|

Maximize growth

- | | |
|---|--|
| <ul style="list-style-type: none"> ■ Advance construction of Boungou Mine on time ■ Advance construction of Boungou Mine on budget ■ Maintain financial flexibility ■ Initial exploration budget of \$23.0 million ■ Explore the Mana Sector, the Boungou Project and other properties ■ Support communities in regions where we are present and offer improved quality of life | <ul style="list-style-type: none"> ■ Construction 80% completed at year-end 2017 ■ Commissioning in line for the third quarter of 2018 ■ Development on budget with \$159 million of the \$231 million capital incurred at year-end 2017 ■ Enhanced financial flexibility through drawdown of incremental \$60 million from Credit Facility ■ Cash and cash equivalents and restricted cash of \$222.2 million as at December 31, 2017 ■ Spent \$27.2 million to carry out exploration programs and add reserves at Siou and at Boungou ■ Added 188,000 oz reserves at Mana mainly from Siou underground ■ Added 203,000 oz in-pit reserves at Boungou ■ Encouraging exploration results at Bantou and Korhogo ■ Relocated over 900 Boungou residents to newly built village ■ SEMAFO Foundation constructed a school and launched adult training programs, sesame and beekeeping projects in Boungou communities ■ Built 7 schools and distributed 13,000 school kits at Mana |
|---|--|

Optimize and improve efficiencies

- | | |
|--|--|
| <ul style="list-style-type: none"> ■ By increasing operational efficiencies ■ By maintaining G&A expense at \$14.0 million ■ By maintaining an injury frequency rate of 2.2 at Mana and 5.0 at Boungou, per 200,000 man-hours | <ul style="list-style-type: none"> ■ Switched from channel sampling to RC grade control ■ Implemented a blast movement monitoring system to improve ore control ■ Enhanced productivity through increase of mining bench heights ■ G&A expense totalled \$14.1 million ■ Achieved work injury frequency rate of 1.89 at Mana ■ Achieved work injury frequency rate of 0.54 at Boungou ■ 3.7 million man-hours have been worked without lost-time injury at Boungou ■ 341 days worked without work injuries at Mana |
|--|--|

¹ Total cash cost and all-in-sustaining costs are non-IFRS financial performance measures with no standard definition under IFRS. See the "Non-IFRS financial measures" section of this MD&A, note 22.

2. 2018 Outlook and Strategy¹

In 2018, our principal goals involve furthering our credentials as a solid operator. We therefore are committed to delivering Mana's production guidance in addition to successfully completing construction, commissioning and commercial production at the Boungou Mine on time and on budget. Moreover, we are aiming to begin development of the Siou underground in the third quarter. Achievement of these major milestones lays the groundwork for doubling consolidated production and operating cash flow within the next two years, while significantly reducing costs. This year's enhanced exploration budget has been designed to build on encouraging exploration results with the aim of extending mine lives and increasing mineral resources.

2018 Outlook

2018 Guidance	Consolidated	Mana	Boungou (Commercial)
Gold production ('000 oz).....	235 - 265	175 - 195	60 - 70
All-in sustaining cost ² ("AISC") (\$/oz).....	900 - 940	1,020 - 1,070	545 - 570
Capital Expenditure (included in AISC) (in millions of \$)			
Sustaining.....	13	10	3
Stripping.....	<u>55</u>	<u>44</u>	<u>11</u>
	68	54	14

Development capital expenditures that are not included in the all-in sustaining cost for 2018 are \$14.5 million out of the total budget of \$51.7 million for the Siou underground.

The general and administrative expense for 2018 has been forecast at \$16 million.

Assumptions

A number of assumptions were made in preparing the 2018 guidance, including:

- Price of gold: \$1,250 US dollars per ounce
- Price of fuel: \$1.08 US dollars per litre
- Exchange rate: \$0.80 US dollars to the Canadian dollar
- Exchange rate: \$1.20 US dollars to the Euro
- Four months of commercial production at Boungou

Operations

Mana

In 2018, the Mana mill should process approximately 2.6 million tonnes at an average grade of 2.52 g/t Au, with an average gold recovery rate of 89%. A total of 2.1 million tonnes of ore will be extracted from the Siou and Wona North pits at an average grade of 2.71 g/t Au, with the remaining balance sourced from stockpiles and low-grade material.

The lower production and higher cost in 2018 result from the mine sequencing, the lower recovery rate, and the negative effect of foreign exchange. Following the results of the Mana PFS, mining at Siou in 2018 is restricted to the northern part since underground development of the southern portion of Siou will begin in the third quarter. The lower recovery rate is attributable to the higher proportion of ore sourced from the Wona pit. The 10% increase in the value of the Euro affected 75% of our costs, which are denominated in Euro or Euro-equivalent currencies.

Boungou

In 2018, we expect to produce about 75,000 ounces of gold at Boungou, of which 60,000 to 70,000 ounces in commercial production. Once in commercial production, Boungou should process approximately 0.45 million tonnes of ore at an average grade of 4.87 g/t Au with an average gold recovery rate of 93%.

¹ This section contains forward-looking statements. For more information on forward-looking statements, see note 24.

² All-in-sustaining costs is non-IFRS financial performance measure with no standard definition under IFRS.

2. 2018 Outlook and Strategy¹ (continued)

Exploration

Exploration expenditure for 2018 has been set at \$26 million, \$9 million of which will be spent at Tapoa (Boungou), \$7 million at the Mana Project, \$4 million at Nabanga, \$3 million at Korhogo and the remaining \$3 million at Bantou.

The 2018 exploration program at Mana includes 10,000 meters of core, 25,000 meters of reverse-circulation and 60,000 meters of auger drilling. The core drill program will primarily target the Siou area with the aim of assessing the north part of Siou at depth. The Bara Trend located some 20 kilometers from the Mana mill will see extensive drilling in the first quarter, including follow-up work on significant RC results and untested auger anomalies.

At Boungou, the 2018 exploration program comprises 42,000 meters of RC and 60,000 meters of auger drilling. The bulk of the RC drill work will test regional gold anomalies on the Boungou proximal, Dangou, Pambourou and 045 Trend Sectors.

The 2018 core drill program at the Nabanga deposit, which will be carried out in the first half of the year, will test lateral and at-depth extension of the mineralization. Furthermore, the Corporation will carry out core and RC drill programs on the Korhogo and Bantou areas following a series of prospective results in 2017.

¹ This section contains forward-looking statements. For more information on forward-looking statements, see note 24

3. Key Economic Factors

Price of Gold

During the year ended December 31, 2017, the price of gold, based on the London Gold Fix PM, fluctuated from a high of \$1,346 to a low of \$1,151 per ounce. The average market gold price in 2017 was \$1,257 per ounce compared to \$1,251 per ounce in 2016, representing an increase of \$6.

	2017					2016
(in dollars per ounce)	Q4	Q3	Q2	Q1	Year	Year
Average London Gold Fix.....	1,276	1,278	1,257	1,219	1,257	1,251
Average realized selling price	1,278	1,282	1,265	1,223	1,261	1,249

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 \$55 per barrel in 2017 compared to \$45 per barrel in 2016.

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 with a time lag. The average price fixed by decree was 592 FCFA (equivalent to \$1.03) per litre in the year ended December 31, 2017 compared to 618 FCFA (equivalent to \$1.04) in 2016.

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 year ended December 31, 2017, the US dollar was weaker relative to the Euro compared to the same period in 2016. As approximately 75% of our costs are nominated in foreign currencies other than the US dollar, the foreign exchange fluctuation negatively impacted our total cash cost¹ and all-in sustaining cost¹.

Natural hedges mitigate our net exposure to foreign currency fluctuations as there is an inverse correlation between the gold price and the US dollar.

Exchange rates are as follows:

	CAD / USD \$		EUR / USD \$	
	2017	2016	2017	2016
March 31 (closing)	1.3322	1.2971	0.9348	0.8779
June 30 (closing)	1.2982	1.3009	0.8754	0.9063
September 30 (closing).....	1.2465	1.3117	0.8463	0.8898
December 31 (closing).....	1.2551	1.3427	0.8347	0.9476
First quarter (average)	1.3246	1.3746	0.9377	0.9085
Second quarter (average).....	1.3440	1.2890	0.9110	0.8848
Third quarter (average).....	1.2530	1.3059	0.8502	0.8967
Fourth quarter (average).....	1.2710	1.3354	0.8501	0.9284
Year (average)	1.2981	1.3262	0.8873	0.9046

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 performance measures" section of this MD&A, note 22.

4. Exploration Programs

Tapoa (Boungou Mine)

The aim of the 2017 exploration program was twofold: firstly, to upgrade the inferred resources on the West and East Flank Sectors to the measured and indicated category as well as to mineral reserves; and secondly, to carry out regional exploration.

West and East Flank Sectors

During the first half of 2017, drilling focused on delineating the West Flank and East Flank Zones. Results were generally in line with those obtained previously. As a result of an internal trade-off study, we added 203,000 ounces of open-pit reserves during 2017.

Regional Exploration

In the second half of the year, 15,000 meters of RC drilling were carried out on regional targets on the Dangou, Boungou and Pambourou permits. In addition, a total of 59,000 meters in 6,330 holes of auger drilling was conducted on the three permits, half of which over the Dangou permit.

The Pambourou target along the 045 Trend continued to return anomalous gold values over wide intervals. Although values remain below economic grades, the results enhance the potential of the structure and demonstrate that the regional 045 Trend is gold-bearing.

2018 Program¹

An exploration budget of \$9 million has been established to explore the Tapoa Permit Group in 2018. The program is expected to comprise 42,000 meters of RC, 60,000 meters of auger drilling and 4,000 meters of trenching activities. The bulk of the RC drill work will test regional gold anomalies on the Boungou proximal, Dangou, Pambourou and 045 Trend Sectors.

Mana Project

In 2017, we invested \$8 million in exploration at Mana and carried out 77,000 meters of auger, 18,000 meters of RC and 20,400 meters of core drilling on the sector, including pre-feasibility study drilling and studies. The purpose of the core drilling program was to complete the PFS (see results in Section 5).

Mana Regional

Over forty percent of the 2017 RC drilling focused on the Bara target, with the remainder primarily carried out over the Pompoi, Wona Sud Ouest and Datomo permits. Bara is located some 20 kilometers north of the Siou deposit and 20 kilometers from the Mana processing plant. Finally, the bulk of the auger drilling was carried out over the Bara permit in order to identify new targets for 2018.

Results suggest that Bara is a seven-kilometer long auger gold anomaly located along a north-south trending lithological contact between a volcanosedimentary sequence and felsic intrusive. Near the south part of the auger anomaly and within the volcanosedimentary sequence, an interesting mineralized zone was observed in two holes returning values of 5.80 g/t Au over 3 meters (MRC17-4889) and 2.29 g/t Au over 3 meters (MRC17-4896). The zone is hosted in a hematized and sheared sediment containing quartz veining. Two kilometers further south, a near-surface quartz vein observed in hole MRC17-4903 returned an average value of 1.57 g/t Au over 7 meters in saprolitized shales. Towards the northern part of the anomaly, a near-surface value of 4.41 g/t Au over 2 meters (MRC17-4972) was also obtained in sheared sediments (See Figure 1).

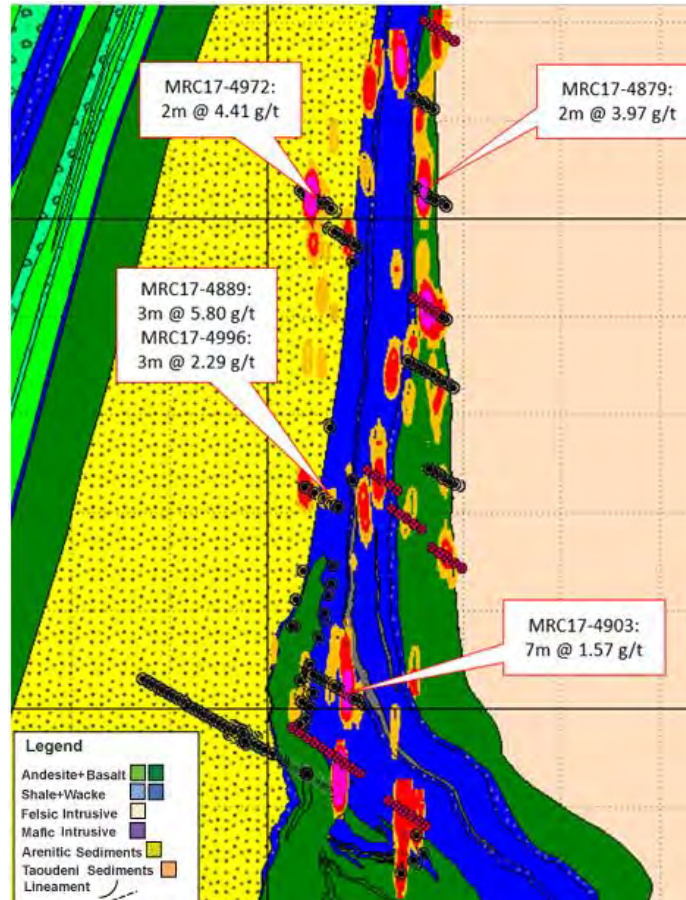
¹ This section contains forward-looking statements. For more information on forward-looking statements, see note 24.

4. Exploration Programs (continued)

Mana Project (continued)

Mana Regional (continued)

Figure 1 - Auger Anomalies for RC Follow-up at Bara



2018 Program¹

We have a \$7 million exploration program for Mana in 2018. The program is expected to include 10,000 cores, 25,000 RC, and 60,000 meters of auger drilling, all of which will be carried out within trucking distance of the Mana Mine. The bulk of the core drill program will be directed to the Siou area with the aim of expanding the newly discovered lens in the north part of Siou at depth.

The Bara Trend will see extensive exploration in the first quarter of the year, including 20,000 meters of auger drilling. During the first half of the year, over 1,000 meters of core and 15,000 meters of RC drilling will be carried out on significant RC results and untested auger anomalies.

Approximately 1,000 meters of core drilling will also be carried out on the Pacolé area located 8.5 kilometers to the east/north-east of Siou, and Nyafé areas. Delineation drilling will also continue, with work devoted to three zones located to the south, west and north of the Nyafé deposit.

Yactibo (Nabanga Project)

In 2017, we focused on deepening our geological interpretation and understanding of the mineralization. The resulting new interpretation suggests a shallow north plunge of the mineralized shoots, many of which remain open at depth.

2018 Program¹

This year, a budget of \$4 million has been allocated to the property to test the new interpretation. The program consists of 10,000 meters of diamond and 70,000 meters of auger drilling, most of which will be completed in the first half of the year. The diamond drill program has been designed to test the extensions of the known mineralized shoots at depth as well as repetitions.

¹ This section contains forward-looking statements. For more information on forward-looking statements, see note 24.

4. Exploration Programs (continued)

Houndé Greenstone Belt Permits

In 2017, a total of 6,600 meters of RC and 1,220 meters of core drilling was carried out across the Dynikongolo and Milpo permits located some 150 kilometers southwest of the Mana Mine. At Dynikongolo, the core drill campaign tested the extension of the mineralization of the Bantou area below a 200-meter depth. Two of the four holes returned significant gold values, suggesting a southwest plunge of the mineralization at depth.

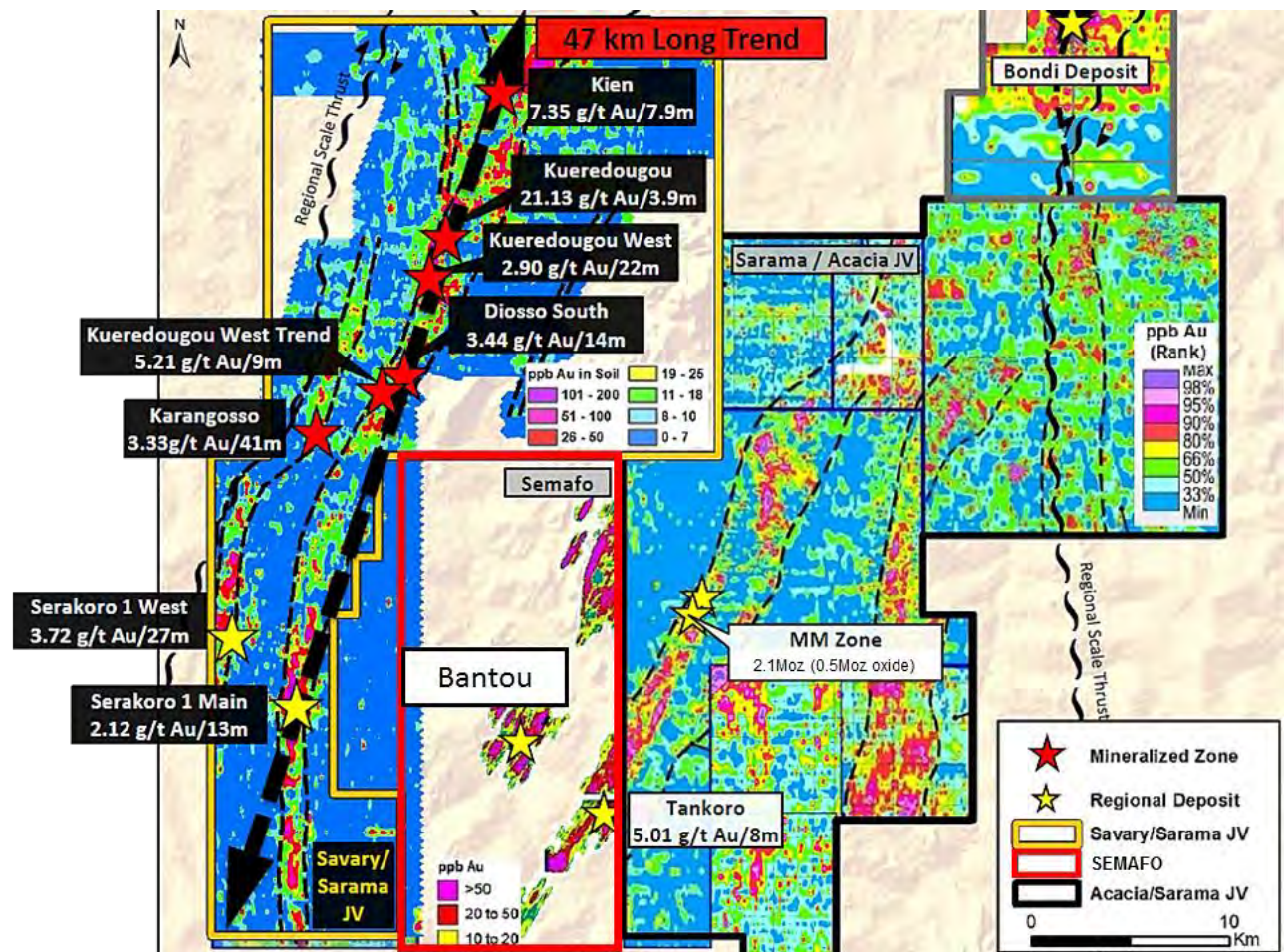
2018 Program¹

For 2018, we plan to carry out core, RC and auger drill programs for total investment of \$3 million. The program includes 3,000 meters of core drilling to test the down plunge extension of the Bantou Area and 13,000 meters of RC to explore both proximal targets and the Tankoro Zone. Historical drilling on the Tankoro Zone located to the southeast of Bantou, returned values of up to 8 meters of 5.02 g/t Au and 5 meters of 4.77 g/t Au.

Investment in Savary Gold

In February 2018, SEMAFO invested \$1.6 million (C\$2 million) in Savary Gold Corp. SEMAFO owns 15.5% of Savary's issued and outstanding shares on a non-diluted basis. Proceeds of the investment will be used to advance the Karankasso Project, adjacent to our Bantou deposit (see Figure 2).

Figure 2 - Location of Savary's Karankasso Project Relative to Bantou Area



¹ This section contains forward-looking statements. For more information on forward-looking statements, see note 24.

4. Exploration Programs (continued)

Korhogo Ouest, Côte d'Ivoire

Exploration work at Korhogo in 2017 included 2,000 meters of trenching, 18,874 meters of RC drilling and 1,047 meters of core drilling. Three different mineralized zones were uncovered along the eastern flank of the greenstone belt over a strike length of more than 10 kilometers. Significant alteration and deformation over wide intervals returned values of up to 8.84 g/t Au across 14 meters.

The 2017 exploration program at Korhogo revealed significant gold mineralization from different structures and geological environments throughout the property. We believe that there is a favorable likelihood of identifying a significant gold zone and plan to pursue our efforts in 2018.

2018 Program¹

A 2018 budget of \$3 million has been assigned to build on the encouraging results. To achieve this, an exploration program consisting of 900 meters of core, 12,000 meters of RC, and 50,000 meters of auger drilling has been scheduled. The RC program will be devoted to testing anomalies in the Chigata and Fotamana Zones in addition to the Chigata-Fotamana trend close to the sediment-granitoid contact.

¹ This section contains forward-looking statements. For more information on forward-looking statements, see note 24.

5. 2017 Reserves and Resources^{1,2}

Reserves & Resources - Overview as at December 31, 2017

- Total proven and probable mineral reserves reached 3.2 million ounces
- Measured and indicated mineral resources remain constant at 48.4 million tonnes averaging 2.00 g/t Au for 3.1 million ounces

At the end of 2017, total proven and probable reserves stood at 29.4 million tonnes averaging 3.37 g/t Au for 3.2 million ounces as compared to 28.2 million tonnes at 3.31 g/t Au for 3.0 million ounces at the end of 2016.

Mineral reserves and resources at Mana and at Tapoa (Boungou Mine) were estimated using a gold price of \$1,200 and \$1,400 per ounce, respectively. See Tables 2 and 3 for more details.

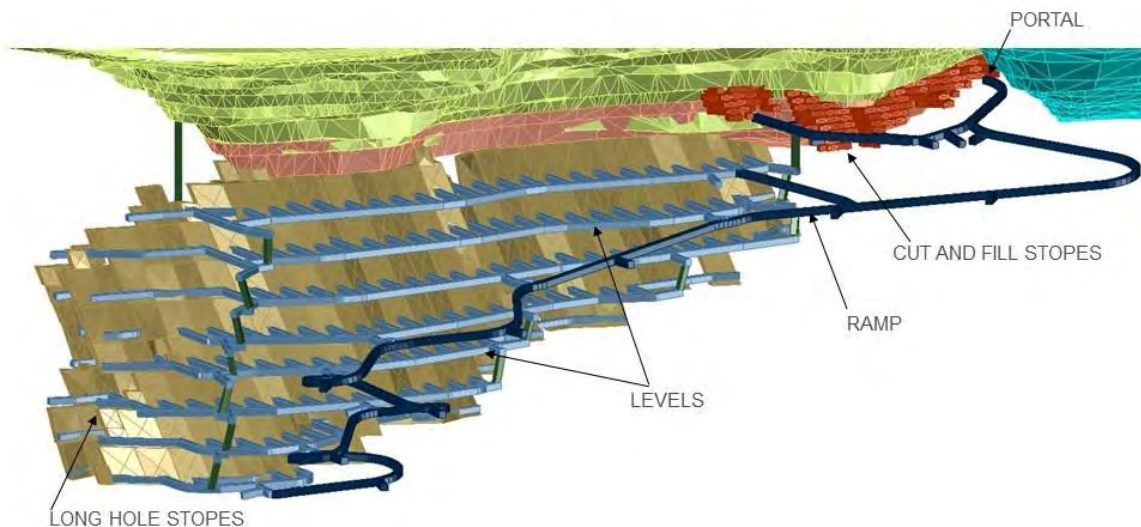
Mana

Highlights of Mana Pre-feasibility Study

- Siou underground mineral reserves stand at 3,035,000 tonnes at 5.29 g/t Au for 515,800 ounces
- Siou open-pit mineral reserves total 1,579,000 tonnes at 3.57 g/t Au for 181,200 ounces
- Mana added 188,000 ounces of reserves before depletion, mainly from Siou underground
- Pre-production capital expenditure of \$51.7 million, to be financed with existing cash
- Underground operations eliminate need for 62 million tonnes of open pit waste mining
- Mineral reserves at Mana stand at 18.2 million tonnes at a grade of 2.92 g/t Au for 1,710,300 ounces at year-end 2017

The PFS assumes access to underground mining operations, mainly long-hole stoping, through a single portal and a 5.5- by 5.5-meter ramp at a 14-gradient slope (see Figure 3). The location of the portal will allow mining in the northern part of the Siou pit to continue uninterrupted. The ultimate size of the underground mining operation will be more than 600 meters along strike by 200 meters deep.

Figure 3 - Underground Mining Layout for Siou Mine



¹ The mineral reserves and resources were estimated as at December 31, 2017 in accordance with the definitions adopted by the Canadian Institute of Mining Metallurgy and Petroleum and incorporated into National Instrument 43-101 - Standards of Disclosure for Mineral Projects (NI 43-101). The PFS for the Mana Mine was carried out by an in-house team whose work was reviewed by qualified persons from Micon International Ltd.

² This section contains forward-looking statements. For more information on forward-looking statements, see note 24.

5. 2017 Reserves and Resources (continued)

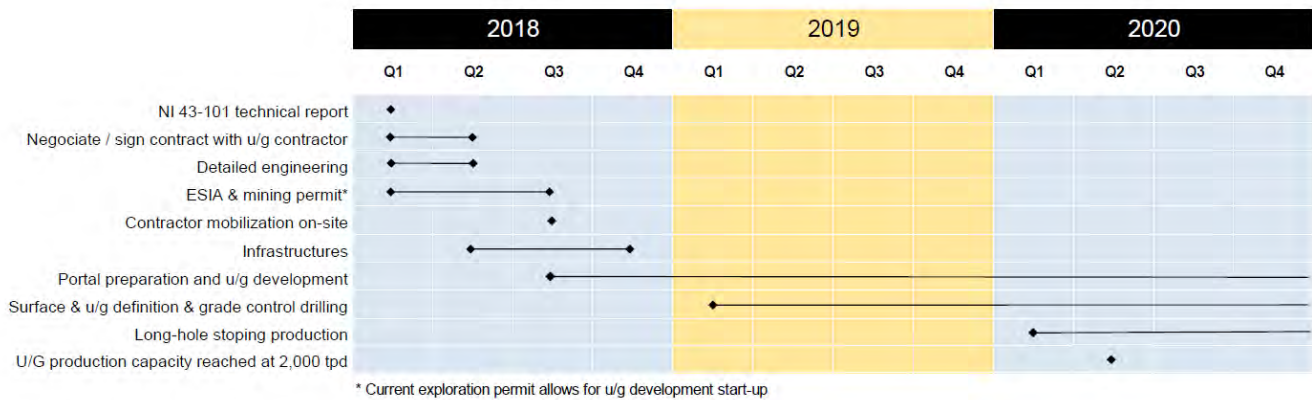
Mana (continued)

Mana Pre-feasibility Study (continued)

The PFS is based on a 2,000-tpd operation using contractor mining with discussions already ongoing with potential contractors. The underground mining costs are estimated at \$70 per tonne milled. The 18-month development period is expected to begin in the third quarter of 2018.

The below table provides an overview of the major milestones for development of Siou underground.

Table 1 - Timeline for Development of Siou Underground



Boungou Reserves & Resources Update

The 2017 infill drill program at Boungou added 203,000 ounces of reserves and 201,000 ounces of measured and indicated resources. The additional reserves have been pit-constrained at a \$1,200 gold price and are included in the updated reserves and resources statement in Table 2. As at December 31, 2017, mineral reserves at Boungou stood at 11.2 million tonnes at 4.11 g/t Au for 1.5 million ounces of gold.

An internal trade-off study was conducted on the West Flank in order to determine whether open pit or underground was the optimal mining approach. Open-pit mining provided better financial returns than an underground operation. The remaining underground resources are included in the measured and indicated category.

Yactibo (Nabanga Deposit)

Inferred resources at the Nabanga deposit remain unchanged at 1.8 million tonnes at 10.0 g/t Au for 590,000 ounces of contained gold.

5. 2017 Reserves and Resources (continued)

Table 1 - Mana, Burkina Faso^{1,2,3}

	DEPOSITS	DECEMBER 31, 2017								
		PROVEN RESERVES			PROBABLE RESERVES			TOTAL RESERVES		
		Tonnage	Grade (g/t Au)	Ounces ⁴	Tonnage	Grade (g/t Au)	Ounces ⁴	Tonnage	Grade (g/t Au)	Ounces ⁴
MANA ^{1,2,3}	WONA-KONA	6,062,000	2.33	453,500	6,280,000	2.22	448,900	12,342,000	2.27	902,400
	NYAFÉ	265,000	5.81	49,600	6,000	3.96	700	271,000	5.77	50,300
	FOFINA	33,000	4.66	4,900	3,000	3.94	300	36,000	4.49	5,200
	SIOU OP	1,400,000	3.78	170,200	179,000	1.92	11,000	1,579,000	3.57	181,200
	SIOU UG	1,047,000	5.10	171,600	1,988,000	5.38	344,200	3,035,000	5.29	515,800
	YAMA	-	-	-	651,000	1.75	36,600	651,000	1.75	36,600
	ROMPAD	317,000	1.84	18,800	-	-	-	317,000	1.84	18,800
	TOTAL	9,124,000	2.96	868,600	9,107,000	2.88	841,700	18,231,000	2.92	1,710,300

	DEPOSITS	DECEMBER 31, 2017								
		MEASURED			INDICATED			TOTAL RESOURCES		
		Tonnage	Grade (g/t Au)	Ounces ⁴	Tonnage	Grade (g/t Au)	Ounces ⁴	Tonnage	Grade (g/t Au)	Ounces ⁴
MANA ^{1,2,3}	WONA-KONA	1,331,000	2.05	87,800	21,623,000	2.55	1,775,600	22,954,000	2.52	1,863,400
	NYAFÉ	286,000	3.94	36,300	223,000	5.97	42,700	509,000	4.83	79,000
	FOFINA	293,000	4.25	40,000	253,000	4.45	36,100	546,000	4.34	76,100
	YAH0	5,738,000	0.91	168,500	11,636,000	0.88	330,800	17,374,000	0.89	499,300
	FILON 67	26,000	2.72	2,300	9,000	3.59	1,000	35,000	2.93	3,300
	FOBIRI	469,000	1.80	27,100	114,000	1.52	5,600	583,000	1.74	32,700
	SIOU OP	67,000	0.63	1,400	56,000	0.65	1,200	123,000	0.66	2,600
	SIOU UG	513,000	3.23	53,200	787,000	3.25	82,300	1,300,000	3.24	135,500
	YAMA	-	-	-	99,000	1.56	4,900	99,000	1.54	4,900
	TOTAL	8,723,000	1.49	416,600	34,800,000	2.04	2,280,200	43,523,000	1.93	2,696,800

	DEPOSITS	DECEMBER 31, 2017		
		INFERRED		
		Tonnage	Grade (g/t Au)	Ounces ⁴
MANA ^{1,2,3}	WONA-KONA	3,466,000	2.96	329,600
	NYAFÉ	151,000	5.87	28,400
	FOFINA	67,000	4.20	9,100
	YAH0	223,000	0.78	5,600
	FILON 67	6,000	6.32	1,100
	FOBIRI	578,000	1.39	25,800
	MAOULA	2,628,000	1.62	137,100
	SIOU	2,093,000	3.86	259,900
	YAMA	58,000	1.33	2,500
	TOTAL	9,270,000	2.68	799,100

¹ The Corporation indirectly owns 90% of SEMAFO Burkina Faso S.A., which directly holds the interest in the Mana Mine reserves and resources.

² Mineral reserves and resources were estimated using a gold price of \$1,200 and \$1,400 per ounce, respectively.

³ All mineral resources reported are exclusive of mineral reserves.

⁴ Rounding of numbers of tonnes and ounces may present slight differences in the figures.

5. 2017 Reserves and Resources (continued)

Table 2 - Consolidated Reserves and Resources

PROPERTY	Mana ^{1,2,4,5,6}	Tapoa ^{1,2,4,5,6} (Boungou Mine)	Yactibo ^{1,3,4,5,7} (Nabanga Project)	Total
MINERAL RESERVES				
Proven				
Tonnes	9,124,000	1,584,000	-	10,708,000
Grade (g/t Au)	2.96	6.45	-	3.48
Ounces	868,600	329,000	-	1,197,600
Probable				
Tonnes	9,107,000	9,611,000	-	18,718,000
Grade (g/t Au)	2.88	3.72	-	3.31
Ounces	841,700	1,150,000	-	1,991,700
TOTAL MINERAL RESERVES				
Tonnes	18,231,000	11,195,000	-	29,426,000
Grade (g/t Au)	2.92	4.11	-	3.37
Ounces	1,710,300	1,479,000	-	3,189,300
MINERAL RESOURCES (exclusive of reserves)				
Measured				
Tonnes	8,723,000	62,000	-	8,785,000
Grade (g/t Au)	1.49	1.86	-	1.49
Ounces	416,600	4,000	-	420,600
Indicated				
Tonnes	34,800,000	4,768,000	-	39,568,000
Grade (g/t Au)	2.04	2.66	-	2.11
Ounces	2,280,200	408,000	-	2,688,200
TOTAL M&I				
Tonnes	43,523,000	4,830,000	-	48,353,000
Grade (g/t Au)	1.93	2.65	-	2.00
Ounces	2,696,800	412,000	-	3,108,800
Inferred				
Tonnes	9,270,000	855,000	1,840,000	11,965,000
Grade (g/t Au)	2.68	2.08	10.00	3.76
Ounces	799,100	57,000	590,000	1,446,100

¹ The Corporation indirectly owns a 100% interest in all of its permits, except for the permits held by SEMAFO Burkina Faso S.A. and SEMAFO Boungou S.A., respectively, in which the Government of Burkina Faso holds a 10% interest.

² Mineral reserves and resources at Mana and at Tapoa (Boungou Mine) were estimated using a gold price of \$1,200 and \$1,400 per ounce, respectively.

³ Mineral resources at Yactibo Permit Group (Nabanga Project) were reported above a 5.0 g/t Au cut-off grade.

⁴ Rounding of numbers of tonnes and ounces may present slight differences in the figures.

⁵ All mineral resources reported are exclusive of mineral reserves.

⁶ As of December 31, 2017.

⁷ As of June 30, 2015.

6. Consolidated Results and Mining Operations

Financial and Operating Highlights

	2017	2016	Variation
Gold ounces produced.....	206,400	240,200	(14%)
Gold ounces sold.....	205,300	240,600	(15%)
(in thousands of dollars, except amounts per share)			
Revenues – Gold sales	258,993	300,483	(14%)
Mining operation expenses.....	123,579	119,050	4%
Government royalties.....	10,806	12,903	(16%)
Depreciation of property, plant and equipment.....	94,722	78,323	21%
Share-based compensation.....	3,226	6,295	(49%)
Impairment of property, plant and equipment.....	—	8,913	(100%)
Other.....	15,166	14,913	2%
Operating income	11,494	60,086	(81%)
Finance income.....	(3,294)	(2,171)	52%
Finance costs.....	1,309	1,938	(32%)
Foreign exchange (gain) loss.....	(9,528)	1,144	—
Income tax expense (recovery).....	(556)	17,908	—
Net income for the year	23,563	41,267	(43%)
Net income attributable to equity shareholders	20,036	34,219	(41%)
Basic earnings per share.....	0.06	0.11	(45%)
Diluted earnings per share.....	0.06	0.11	(45%)
Adjusted amounts			
Adjusted operating income ¹	10,659	70,989	(85%)
Adjusted net income attributable to equity shareholders ¹	864	48,109	(98%)
Per share ¹	—	0.15	(100%)
Cash flows			
Cash flows from operating activities ²	107,023	142,222	(25%)
Per share ¹	0.33	0.45	(27%)

¹ 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 performance measures" section of this MD&A, note 22.

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

6. Consolidated Results and Mining Operations (continued)

2017 v. 2016

- In 2017, gold sales amounted to \$258,993,000 compared to \$300,483,000 in 2016. The decrease in gold sales is caused by lower gold ounces produced and sold. See note 7 for more information. The variation between gold ounces sold and gold ounces produced is due to the timing of shipments.
- Lower government royalties are a direct result of lower gold sales.
- The 2017 increase in depreciation of property, plant and equipment mainly reflects a higher capitalized stripping ratio from Siou at depth compared to the same period in 2016.
- Lower share-based compensation expense in 2017 compared to 2016 is due to the change in our share price.
- During the year ended December 31, 2016, we recorded a non-cash impairment loss of \$8,913,000 previously capitalized as "exploration and evaluation assets" within "property, plant and equipment". We have no plans to further develop the Banfora Zone and substantive expenditure on further exploration and evaluation of mineral resources in the Banfora Zone is neither budgeted nor planned. Consequently, the exploration rights costs and capitalized exploration and evaluation expenses for this property have been written off within the "other exploration" segment and are included as "impairment of property, plant and equipment" in the consolidated statement of income.
- The decrease in operating income in 2017 compared to 2016 is mainly due to lower gold sales and higher depreciation, partially offset by lower share-based compensation expense and the 2016 non-cash impairment of property, plant and equipment.
- The foreign exchange gain amounted to \$9,528,000 due to the revaluation of our monetary assets denominated in foreign currencies following the weakening of the US dollar as at December 31, 2017 compared to December 31, 2016.
- The decrease in taxable income at the Mana Mine compared to the same period in 2016 contributed to the reduction of the income tax expense. In addition, the decrease in income tax expense is due to the weakening of the US dollar in 2017 whereas the US dollar strengthened in 2016. In 2017, 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 recovery of \$8,809,000 in 2017, compared to an expense of \$1,843,000 in 2016. 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.

7. Operating Income (Loss) by Segment

	2017	2016	Variation
(in thousands)	\$	\$	%
Mana, Burkina Faso.....	26,725	86,775	(69%)
Boungou, Burkina Faso	(166)	—	—
Other exploration	—	(8,913)	100%
Corporate and other.....	(15,065)	(17,776)	15%
	11,494	60,086	(81%)

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

Mana, Burkina Faso

Mining Operations

	2017	2016	Variation
Operating Data			
Mining			
Waste mined (tonnes).....	16,913,100	16,686,800	1%
Ore mined (tonnes).....	2,268,100	2,175,700	4%
Operational stripping ratio.....	7.5	7.7	(3%)
Capitalized Stripping Activity			
Waste material – Siou (tonnes).....	12,607,300	12,263,200	3%
Waste material – Fofina (tonnes).....	—	2,820,300	(100%)
Waste material – Wona (tonnes).....	9,189,900	3,252,400	183%
	21,797,200	18,335,900	19%
Total strip ratio	17.1	16.1	6%
Processing			
Ore processed (tonnes)	2,136,100	2,329,500	(8%)
Low grade material (tonnes)	603,800	423,800	42%
Tonnes processed (tonnes)	2,739,900	2,753,300	—%
Head grade (g/t).....	2.46	2.88	(15%)
Recovery (%).....	95	94	1%
Gold ounces produced.....	206,400	240,200	(14%)
Gold ounces sold.....	205,300	240,600	(15%)
Financial Data (in thousands of dollars)			
Revenues – Gold sales.....	258,993	300,483	(14%)
Mining operations expenses	123,579	119,050	4%
Government royalties.....	10,806	12,903	(16%)
Depreciation of property, plant and equipment	94,357	77,952	21%
General and administrative	2,595	2,843	(9%)
Corporate social responsibility expenses.....	931	960	(3%)
Segment operating income	26,725	86,775	(69%)
Statistics (in dollars)			
Average realized selling price (per ounce).....	1,261	1,249	1%
Cash operating cost (per tonne processed) ¹	46	43	7%
Total cash cost (per ounce sold) ¹	655	548	20%
All-in sustaining cost (per ounce sold) ¹	942	720	31%
Depreciation (per ounce sold) ²	460	324	42%

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 22.

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.

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

Mana, Burkina Faso (continued)

Mining Operations (continued)

2017 v. 2016

- In 2017, production reached 206,400 ounces of gold at an all-in sustaining cost of \$942 per ounce.
- In 2017, the head grade was lower than in 2016 due to geological interpretation issues in the upper portion of Zone 9 earlier in the year. In addition, the decrease in head grade is due to the processing of 603,800 tonnes of low-grade material not included in our reserves. This results from the decision to take advantage of higher gold prices and available milling capacity in order to generate additional cash flow. Absent the impact of this decision, the head grade would have been 2.96 g/t Au.
- The decrease in gold ounces produced and sold is a direct result of the 15% lower head grade.
- Lower gold sales are caused by lower gold ounces produced and sold. The variation between gold ounces sold and gold ounces produced is due to the timing of shipments.
- The decrease in government royalties in 2017 is a direct result of lower gold sales
- The 2017 increase in depreciation of property, plant and equipment and depreciation¹ per ounce sold mainly reflects a higher capitalized stripping ratio from Siou at depth compared to the same period in 2016.
- As expected, in 2017, the total cash cost² and all-in sustaining cost² reached \$655 and \$942 per ounce sold compared to \$548 and \$720 per ounce sold in 2016. This is due to a lower head grade and higher cash operating cost per tonne, the latter being mainly caused by negative foreign exchange fluctuations.

¹ 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.

² 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 performance measures" section of this MD&A, note 22.

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

Bougou, Burkina Faso¹

Bougou Mine

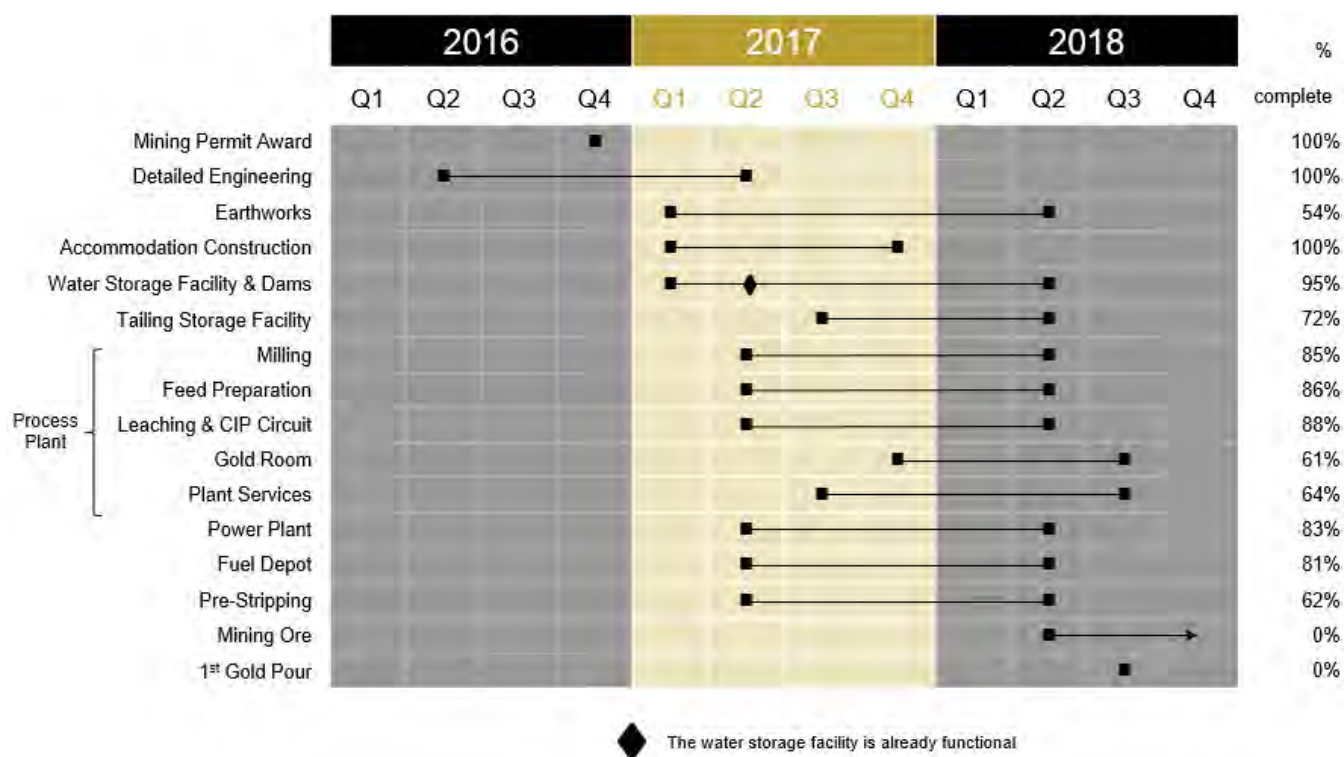
The Bougou high-grade open pit operation is located 320 kilometers east of Ouagadougou, the capital city of Burkina Faso. At the end of 2017, mineral reserves stood at 11,185,000 tonnes at 4.11 g/t Au for a total of 1,479,000 ounces of gold. During the life of mine, we expect to recover 1,363,000 ounces at an all-in sustaining cost¹ of \$570 per ounce. The first gold pour is scheduled for the third quarter of 2018.

Construction of the Bougou Mine continues to advance on time and on budget. As at January 31, 2018, the following achievements had been made:

- Addition of 203,000 ounces of reserves
- Development on budget with \$171 million of the \$231 million capital expenditure incurred
- Construction 83% completed
- Completion of about 90% of structural steel, 85% of mechanical and 22% of piping installation
- Installation of the liner on the water storage facility
- Tailings storage facility 72% completed
- Completion of 81% of the fuel depot and 83% of the power plant
- Pre-stripping 62% completed with 11.2 million of the projected 18 million tonnes extracted
- Installation of the SAG mill completed
- 4.1 million man-hours have been worked without lost-time injury
- 2,027 personnel including contractors were employed on site, 86% of which are Burkinabe

The table below presents the construction milestones for the Bougou Mine and their level of completion:

Table 1 - Construction Milestones as at January 31, 2018



¹ This section contains forward-looking statements. For more information on forward-looking statements, see note 24.

² All-in sustaining cost is a non-IFRS financial performance measure with no standard definition under IFRS.

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

Corporate Social Responsibility

For the year ended December 31, 2017, corporate social responsibility expenses, representing contributions made to SEMAFO Foundation, totalled \$1,097,000 (2016: \$960,000).

The fourth quarter saw SEMAFO Foundation complete construction of four new schools in the Boucle du Mouhoun region, one of which comprised a high school with four classrooms, fitted with an office, storeroom, sanitary and drinking water facilities. To encourage school attendance in the region, 14 primary school canteens were supplied with food and cooking oil supplies. Two of the livelihood projects supported by the Foundation made key deliveries in the period: the women's shea butter center delivered 40 tonnes of shea nuts and 2,600 soaps to its principal clients in Burkina Faso. In addition, the chicken farming co-op delivered a sixth consignment of chickens, accompanied by a health certificate, to the Mana Mine's catering service. The six sesame demonstration plots set up by the Foundation are progressing well with producers observing the technical and economic benefits of implementing organic field treatment and fertilisers.

In concert with SEMAFO Foundation's activities, the Mana Mine's community team assisted the human resources team in the quarter in meeting temporary labour needs in local villages. Management also hosted a delegation from the Minister of Mines with regard to local recruitment, purchasing and succession planning. Overall, the mine continued to strengthen relations with local communities by providing support regarding the improvement of roads, repair of school and community boreholes, in addition to donations for community and customary events.

In the Est region by the Boungou Mine, construction of the primary school for the new village of Boungou was completed at year-end. A total of 750 school kits and some 75 solar lamps had previously been distributed to four local primary schools. In November, the Foundation inaugurated a water borehole and announced construction of an additional well for a second village. A series of activities including literacy classes, training in management of local water resources, and funding for vocational training were provided in the quarter in order to upskill local inhabitants. On the revenue-generating activity front, the Foundation supported the 125 organic sesame producers in the area by organizing a visit from an external consultant who provided training on shaking, packaging and storage techniques. In addition, producers received seeds for the upcoming season. SEMAFO Foundation's third revenue-generating project in the area - a chicken-farming project - was launched in the quarter. Under the new project, 40 female participants will receive a total of 1,000 chicks in batches of 500 birds, which should enable them to supply the Boungou Mine catering service.

Corporate and Other

	2017	2016
(in thousands)	\$	\$
Depreciation of property, plant and equipment	365	371
General and administrative	11,474	11,110
Share-based compensation	3,226	6,295
Segment operating loss	(15,065)	(17,776)

Share-based Compensation

	2017	2016
(in thousands)	\$	\$
Restricted Share Unit	2,880	5,485
Deferred Share Unit	248	691
Performance Share Unit	98	119
	3,226	6,295

For the year ended December 31, 2017, our share-based compensation expense amounted to \$3,226,000 (2016: \$6,295,000). The \$3,226,000 expense included a \$4,061,000 expense (2016: \$4,305,000) for outstanding units and a recovery of \$835,000 (2016: expense of \$1,990,000) due to the change in our share price.

Please refer to note 22 of the financial statements for more details.

8. Other Elements of the Statement of Income

Foreign Exchange Gain

For the year ended December 31, 2017, the foreign exchange gain amounted to \$9,528,000 due to the revaluation of our monetary assets denominated in foreign currencies following the weakening of the US dollar as at December 31, 2017 compared to December 31, 2016. A significant portion of the foreign exchange gain is due to the conversion of cash and cash equivalents denominated in foreign currencies that have been designated for the construction of the Boungou Mine.

Income Tax Expense

The decrease in taxable income at the Mana Mine in 2017 compared to 2016 contributed to the reduction of the income tax expense. In addition, the decrease in income tax expense is due to the weakening of the US dollar in 2017 whereas the US dollar strengthened in 2016. In 2017, 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 recovery of \$8,809,000 in 2017, compared to an expense of \$1,843,000 in 2016. 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 Interests

For the year ended December 31, 2017, the income attributable to the non-controlling interests was as follows:

	2017	2016
	\$	\$
Government of Burkina Faso - 10% in SEMAFO Burkina Faso S.A.	3,056	7,048
Government of Burkina Faso - 10% in SEMAFO Boungou S.A.	471	—
	3,527	7,048

9. Other Comprehensive Income

For the year ended December 31, 2017, other comprehensive income amounted to \$1,161,000 (2016: \$1,095,000), which related to the variation in fair value of our investment in GoviEx Uranium Inc. ("GoviEx") for \$1,013,000 (2016: \$1,095,000) and our other investment for \$148,000 (2016: nil).

The investment in GoviEx was acquired in 2008. GoviEx is a publicly traded mineral resources company focused on the exploration and development of uranium properties in Africa. On July 11, 2016, GoviEx transferred its listing from the Canadian Securities Exchange ("CSE") to the TSX Venture Exchange ("TSX-V") and concurrently, delisted from the CSE. Prior to the delisting from the CSE, it was concluded that GoviEx's common shares were not quoted in an active market and their fair value was determined to be nil. Subsequent to their transfer to the TSX-V, it was concluded that GoviEx's common shares are quoted in an active market. Consequently, based on the last closing price observed on the TSX-V, we concluded the fair value of the investment in GoviEx is \$2,108,000 as at December 31, 2017.

10. Cash Flows

The following table summarizes our cash flow activities:

	2017	2016
(in thousands)	\$	\$
Cash flows		
Operations before working capital items	107,023	142,222
Working capital items	(30,115)	6,558
Operating activities.....	76,908	148,780
Financing activities.....	54,817	51,270
Investing activities	(218,154)	(92,280)
Effect of exchange rate changes on cash and cash equivalents.....	11,607	(1,164)
Change in cash and cash equivalents during the year	(74,822)	106,606
Cash and cash equivalents – beginning of the year	273,772	167,166
Cash and cash equivalents – end of the year	198,950	273,772

Operating

2017 v. 2016

For the year ended December 31, 2017, operating activities, before working capital items, generated cash flows of \$107,023,000 compared to \$142,222,000 in 2016 mainly due to lower revenues. Working capital items required liquidities of \$30,115,000 in 2017 compared to \$6,558,000 liquidity generated in 2016, mainly due to higher inventories, trade and other receivables and income tax receivable, partially offset by higher trade payables and accrued liabilities.

Further details regarding the changes in non-cash working capital items are provided in note 27 a) of the financial statements.

Financing

2017 v. 2016

For the year ended December 31, 2017, cash flow provided by financing activities amounted to \$54,817,000 compared to \$51,270,000 in 2016.

Credit Facility with Macquarie Bank Limited ("Credit Facility")

In 2017, we drew down the incremental \$60,000,000 available under the Credit Facility. In 2016, we reimbursed \$30,000,000 of the Credit Facility as per its repayment schedule. In addition, we paid \$259,000 in transaction costs in 2016 in connection with the New Advance.

For more information on the long-term debt, refer to note 13 of our financial statements.

Equipment Financing

In May 2016, we purchased equipment, a portion of which was financed by the supplier for an amount of \$930,000. In 2017, we reimbursed \$310,000 on the Equipment Financing (2016: \$129,000).

Finance Lease

In 2017, we reimbursed \$5,128,000 on the finance lease under the Mining Agreement. For more information on the finance lease, refer to note 14 of our financial statements.

Proceeds on Issuance of Share Capital from the Exercise of Options

A total of 142,000 options were exercised during the year ended December 31, 2017 for a cash consideration of \$255,000. In 2016, a total of 2,427,000 options were exercised for a cash consideration of \$6,042,000.

10. Cash Flows (continued)

Financing (continued)

2017 v. 2016 (continued)

Bought Deal Financing

On April 22, 2016, a syndicate of underwriters purchased, on a bought deal basis, 26,450,000 of our common shares, 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.

As at December 31, 2017, proceeds of our 2016 offering had been used as follows:

	Announced use of proceeds	Actual use of proceeds, December 31, 2017
(in thousands)	\$	\$
Exploration at Mana and Boungou.....	36,287	36,287
Flexibility at Boungou Mine	22,679	12,000
Working capital and general corporate purposes.....	27,009	24,195
	85,975	72,482

Dividends

In 2017, in light of our ongoing investment in Burkina Faso, no dividend was paid to the non-controlling interest, which is the Government of Burkina Faso that owns 10% of SEMAFO Burkina Faso S.A. and 10% of SEMAFO Boungou S.A. For the year ended December 31, 2016, a \$10,359,000 dividend was paid.

Investing

For the year ended December 31, 2017, cash flow from investing activities amounted to \$218,154,000, compared to \$92,280,000 in 2016.

Acquisition of Property Plant and Equipment

	2017	2016
(in thousands)	\$	\$
Sustaining capital.....	14,292	11,057
Stripping cost.....	44,615	30,405
Subtotal sustaining capital expenditures	58,907	41,462
Exploration expenditure	27,189	19,152
Construction - Boungou Mine a)	141,777	16,856
Finance lease paid including construction costs	(5,128)	—
Capitalized borrowing costs	5,484	3,800
Development of Wona	—	11,302
Other.....	174	—
Feasibility study - Natougou Project	—	1,158
	228,403	93,730
Variation in unpaid acquisitions of property, plant and equipment.....	(27,057)	(2,840)
Total	201,346	90,890

10. Cash Flows (continued)

Investing (continued)

a) As at December 31, 2017, construction of the Boungou Mine had advanced as follows:

	Construction - Boungou Mine
	\$
As at December 31, 2016	16,856
Additions	141,777
As at December 31, 2017	158,633

Restricted Cash

For the year ended December 31, 2017, the \$16,808,000 increase in restricted cash was mainly attributable to the \$15,000,000 deposit requirement related to the drawdown of the Credit Facility¹ (2016: nil) and \$1,947,000 for the funding of our asset retirement obligation in Burkina Faso (2016: \$1,390,000).

11. Financial Instruments

The nature and extent of risks arising from financial instruments are described in note 19 of our financial statements.

12. 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 of our financial statements.

13. New Accounting Standards Issued but not yet in Effect

The new accounting standards issued but not yet in effect are disclosed in note 4 of our financial statements.

¹ Please refer to note 13 of our financial statements for more details.

14. Financial Position

As at December 31, 2017, we held \$222,187,000 in cash and cash equivalents and restricted cash. With our existing cash balance and our forecasted cash flows from operations, we are well positioned to fund all of our cash requirements for 2018 and 2019, which relate primarily to the following activities:

- Construction of the Boungou Mine
- Exploration programs
- Capital expenditures at Mana

	As at December 31, 2017 \$	As at December 31, 2016 \$
(in thousands)		
Total current assets	295,288	344,621
Property, plant and equipment.....	703,341	536,237
Other non-current assets.....	29,734	14,418
Total assets	1,028,363	895,276
Current liabilities.....	87,206	57,602
Non-current liabilities.....	180,595	102,091
Total liabilities	267,801	159,693
Equity attributable to equity shareholders	729,480	708,028
Non-controlling interests	31,082	27,555

As at December 31, 2017, our total assets amounted to \$1,028,363,000 compared to \$895,276,000 as at December 31, 2016. Our total assets increased mainly as a result of the construction of the Boungou Mine.

As at December 31, 2017, our liabilities totalled \$267,801,000 compared to \$159,693,000 as at December 31, 2016. The increase is mainly due to the drawdown of the Credit Facility, trade payables and accrued liabilities related to the construction of the Boungou Mine and the finance lease under the Mining Agreement.

15. 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 December 31, 2017 was \$11,939,000 (December 31, 2016: \$7,650,000).

Government Royalties

In Burkina Faso, all shipments at 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 at gold spot prices between \$1,000 and \$1,300 per ounce, and a 5% royalty rate is applied to all shipments at a gold spot price greater than \$1,300 per ounce.

For the year ended December 31, 2017, we were subject to royalty rates of 4% and 5% (2016: 4% and 5%), which were calculated using the retail market value of gold ounces sold at the time of shipment. For the year ended December 31, 2017, government royalties amounting to \$10,806,000 (2016: \$12,903,000) were paid to the Government of Burkina Faso.

Net Smelter Royalty ("NSR")

We are subject to an NSR of 1% on various exploration properties. The NSR comes into effect when we enter into commercial production.

Purchase Obligations

As at December 31, 2017, purchase commitments totalled \$44,470,000, of which \$42,417,000 related to the Boungou Mine.

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 December 31, 2017, we were in compliance in all material respects with the obligations related to the ownership of our material permits.

Minimum Operating Lease Payments (Off Balance sheet arrangement)

In the normal course of business, the Corporation enters into contracts with a commitment to minimum operating lease payments.

Future minimum operating lease payments are as follows:

	Less than one year \$	Between one year and five years \$	Over five years \$	Total \$
Office rental	341	1,176	461	1,978
Other operating lease contract	10,042	11,716	—	21,758
	10,383	12,892	461	23,736

16. Related Party Transactions

The related party transactions are disclosed in note 29 to our 2017 financial statements.

17. 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.

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 certain costs are incurred in other currencies. Also, we hold cash and cash equivalents that are denominated in non-US dollars which are subject to currency risk. The appreciation of non-US dollar currencies against the US dollar can increase the cost of exploration and production in US dollar terms, while the depreciation of our non-US dollar cash and cash equivalents can impact our balance sheet, either of which could materially adversely affect our financial condition and results of operation.

Interest Rate Fluctuations

As a borrower of long-term debt, 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.

17. Risks and Uncertainties (continued)

Operational Risks (continued)

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 our 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 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, the environment and possible legal liability for any or all damage.

Boungou Mine Development

The development of the Boungou Mine requires the construction and operation of an open-pit mine, processing plants and related infrastructure. Construction began at the end of 2016 and, as a result, SEMAFO is, and will continue to be, subject to the risks associated with the establishment of a new mining operation. Any delay in the performance of any one or more of the contractors, suppliers, consultants or other persons on which we rely in connection with the construction of the Boungou Mine, a delay in or failure to receive the required governmental approvals and permits in a timely manner or on reasonable terms, or a delay or failure in connection with the completion and successful operations of the Boungou Mine could delay or prevent the construction process and completion as planned. There can be no assurance that the current construction plan for the Boungou Mine will be successful.

The Natougou feasibility study contains estimates of future production, development plans, operating and capital costs, financial returns and other economic and technical estimates relating specifically to the Boungou Mine. These estimates are based on a diversity of factors and assumptions and there can be no assurance that such production, plans, costs or other estimates will be achieved.

In addition, while the feasibility study incorporates what we believe is an appropriate contingency factor in cost estimates to account for these uncertainties, there is no assurance that the contingency factor will be adequate.

Actual costs and financial returns may vary importantly from the estimates depending on factors outside our control. There can be no assurances that the development of the Boungou Mine and the ongoing operating costs associated with its development will not be significantly higher than anticipated. Any increase in costs or delay in the construction of the Boungou Mine could materially adversely affect our financial condition and results of operations.

17. Risks and Uncertainties (continued)

Operational Risks (continued)

Integration of Acquired Business

From time to time, we evaluate potential acquisition opportunities to support and strengthen our business and asset base. In 2015, we acquired Orbis Gold Limited ("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 deposit of Siou. 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 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. 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.

17. 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. These licenses and permits, however, are subject to change in various circumstances including as a result of a change in the interpretation of applicable laws or with respect to the exercise of a discretionary power. 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 operation.

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 the 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. Any such activity may disrupt our operations, limit our ability to hire and keep qualified personnel as well as restrict our access to capital.

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.

17. 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. Labour disruptions 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. 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.

Mining production 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 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 for our 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.

17. 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.

Cybersecurity threats

Our operations depend, in part, on how well we and our suppliers protect networks, technology systems and software against damage from a number of threats, including viruses, security breaches and cyber-attacks. Cyber security threats include attempts to gain unauthorized access to data or automated network systems and the manipulation or improper use of information technology systems. The failure of any part of our information technology systems could, depending on the nature of any such failure, materially adversely impact our reputation, financial condition and results of operations. Although we have not to date experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that we will not incur such losses in the future. Our risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As cyber threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any system vulnerabilities.

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.

18. Information on Outstanding Shares

As at March 6, 2018, our share capital comprised 324,981,664 common shares issued and outstanding.

We have two stock option plans for our employees, officers, consultants and directors and those of our subsidiaries: the Share Option Plan ("Original Plan") and the 2010 Share Option Plan ("2010 Plan"). Since the adoption of the 2010 Plan by our shareholders at the 2010 Annual General and Special Shareholders' Meeting, no 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 March 6, 2018, stock options allowing its holders to purchase 2,151,634 common shares were outstanding.

19. Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

Our President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures ("DC&P"), or caused to be designed under their supervision to provide reasonable assurance that:

- i) Material information relating to our Corporation is made known to us by others, particularly during the period in which the annual filings are being prepared; and
- ii) Information required to be disclosed by us in our annual filings, interim filings or other reports filed or submitted by us under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Our CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of our DC&P as defined in Regulation 52-109 respecting Certification of Disclosure in Issuer's Annual and Interim Filings as at December 31, 2017, and have concluded that such DC&P were designed and operating effectively.

Internal Control over Financial Reporting

Our CEO and CFO are responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Our CEO and CFO have evaluated the design and operating effectiveness of its ICFR as defined in Regulation 52-109 respecting Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, the CEO and CFO concluded that, as at December 31, 2017, the ICFR were appropriately designed, effective and able to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in our ICFR that occurred during the period beginning on October 1, 2017 and ended December 31, 2017 that has materially affected, or is reasonably likely to material affect our ICFR.

Limitations of DC&P and ICFR

All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

20. Fourth Quarter Financial and Operating Results

During the fourth quarter of 2017, we realized gold sales of \$62,960,000 and an operating income of \$2,215,000 compared to gold sales of \$69,137,000 and an operating income of \$4,806,000 in the same period in 2016. The decrease in our operating income is due to lower production and higher share-based compensation expense, partially offset by the 2016 impairment loss of \$8,913,000 related to the Banfora Zone. Net income attributable to equity shareholders amounted to \$1,649,000 or \$0.01 per share in December 31, 2017.

During the fourth quarter of 2017, our total cash cost¹ and all-in sustaining cost¹ reached \$667 and \$982 per ounce sold, respectively, compared to \$571 and \$694 per ounce sold in the same period in 2016. The increase is due to higher sustaining capital expenditures and higher cash operating cost per tonne, the latter being caused by negative foreign exchange fluctuations.

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 22.

21. Quarterly Information

	2017					2016				
	Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4	YTD
(in thousands of dollars, except for amounts per share)										
Results										
Revenues – Gold sales	66,886	59,315	69,832	62,960	258,993	74,556	76,590	80,200	69,137	300,483
Operating income (loss)	(1,785)	(755)	11,819	2,215	11,494	17,836	14,428	23,016	4,806	60,086
Net income (loss)	(2,384)	9,348	13,807	2,792	23,563	18,691	7,078	19,559	(4,061)	41,267
Attributable to:										
- Equity shareholders	(2,691)	8,854	12,224	1,649	20,036	16,184	5,304	17,680	(4,949)	34,219
- Non-controlling interest	307	494	1,583	1,143	3,527	2,507	1,774	1,879	888	7,048
Basic earnings (loss) per share	(0.01)	0.03	0.04	0.01	0.06	0.05	0.02	0.05	(0.02)	0.11
Diluted earnings (loss) per share	(0.01)	0.03	0.04	0.01	0.06	0.05	0.02	0.05	(0.02)	0.11
Cash flows from operating activities ¹	23,147	23,614	34,853	25,409	107,023	35,204	37,390	39,266	30,362	142,222
MANA										
Operating data										
Ore mined (tonnes)	479,400	503,200	516,700	768,800	2,268,100	500,300	564,500	555,200	555,700	2,175,700
Tonnes processed (tonnes)	731,800	675,500	679,100	653,500	2,739,900	682,900	604,500	751,700	714,200	2,753,300
Head grade (g/t)	2.55	2.31	2.55	2.43	2.46	3.04	3.33	2.71	2.52	2.88
Recovery (%)	92	95	97	97	95	92	95	95	95	94
Gold ounces produced	55,400	47,600	53,900	49,500	206,400	61,300	61,300	62,500	55,100	240,200
Gold ounces sold	54,700	46,900	54,500	49,200	205,300	62,800	60,700	60,000	57,100	240,600
Statistics (in dollars)										
Average selling price (per ounce)	1,223	1,265	1,282	1,278	1,261	1,187	1,262	1,337	1,211	1,249
Cash operating cost (per tonne processed) ²	52	43	42	47	46	42	49	41	40	43
Total cash cost (per ounce sold) ²	699	703	557	667	655	505	547	574	571	548
All-in sustaining cost (per ounce sold) ²	892	1,074	841	982	942	695	742	751	694	720
Depreciation (per ounce sold) ³	460	527	401	460	460	275	331	330	364	324

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

² 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 performance measures" section of this MD&A, note 22.

³ 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.

22. 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:

	2017	2016
Per tonne processed		
Tonnes of ore processed	2,739,900	2,753,300
(in thousands of dollars except per tonne)		
Mining operation expenses (relating to ounces sold)	134,385	131,953
Government royalties and selling expenses	(11,364)	(13,627)
Effects of inventory adjustments (doré bars and gold in circuit)	3,184	(67)
Operating costs (relating to tonnes processed)	126,205	118,259
Cash operating cost (per tonne processed)	46	43

Total Cash Cost

	2017	2016
Per ounce sold		
Gold ounce sold	205,300	240,600
(in thousands of dollars except per ounce)		
Mining operation expenses	134,385	131,953
Total cash cost (per ounce sold)	655	548

All-in Sustaining Cost

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

	2017	2016
Per ounce sold		
Gold ounce sold	205,300	240,600
(in thousands of dollars except per ounce)		
Sustaining capital expenditure	58,907	41,462
Sustaining capital expenditure (per ounce sold)	287	172
Total cash cost (per ounce sold)	655	548
All-in sustaining cost (per ounce sold)	942	720

22. Non-IFRS Financial Performance Measures (continued)

Operating Cash Flows per Share

	2017	2016
(in thousands except per share)		
Cash flows from operating activities ¹	107,023	142,222
Weighted average number of outstanding common shares - basic	324,894	315,290
Operating cash flows per share	0.33	0.45

Adjusted Accounting Measures

	2017	2016
(in thousands of dollars except per share)		
Net income attributable to equity shareholders as per IFRS.....	20,036	34,219
Foreign exchange (gain) loss.....	(9,528)	1,144
Tax effect of currency translation on tax base.....	(8,809)	1,843
Share-based compensation (recovery) expense related to change in the fair value of the share price	(835)	1,990
Impairment of property, plant and equipment.....	—	8,913
Adjusted net income attributable to equity shareholders	864	48,109
Weighted average number of outstanding shares	324,894	315,290
Adjusted basic earnings per share	—	0.15

	2017	2016
(in thousands)	\$	\$
Operating income as per IFRS	11,494	60,086
Share-based compensation (recovery) expense related to change in the fair value of the share price	(835)	1,990
Impairment of property, plant and equipment.....	—	8,913
Adjusted operating income	10,659	70,989

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

23. Additional Information and Continuous Disclosure

This MD&A has been prepared as of March 6, 2018. 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.

24. 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 "targeting", "pursuing", "growth", "opportunities", "outlook", "strategy", "committed", "aiming to", "encouraging", "guidance", "forecast", "should", "will", "expect", "suggest", "believe", "plan", "estimated", "timeline", "development", "continues", "milestones" 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 execute on our strategic focus, the ability to begin development of the Siou underground in the third quarter of 2018, the ability to double consolidated production and operating cash flow within the next two years, the ability of our 2018 exploration program to extend mine lives and increase mineral resources, the ability to meet our 2018 guidance of between 235,000 and 265,000 ounces of gold at an all-in sustaining cost of between \$900 and \$940 per ounce, the ability to keep our general and administrative expense for 2018 at \$16 million, the ability of the Mana mill to process approximately 2.6 million tonnes at an average grade of 2.52 g/t Au, with an average gold recovery rate of 89%, the ability to extract 2.1 million tonnes of ore from the Siou and Wona North pits at an average grade of 2.71 g/t Au, the ability to produce 75,000 ounces of gold at Boungou in 2018, Boungou's ability, once in commercial production, to process 0.45 million tonnes of ore at an average grade of 4.87 g/t Au with an average gold recovery rate of 93%, the ability to execute our 2018 exploration program on our various properties and identify new targets, the ability to respect the timeline for development of the Siou underground, the ability to complete the construction of the Boungou mine on time and on budget, the accuracy of our assumptions, fluctuation in the price of currencies, gold prices and operating costs, mining industry risks, uncertainty as to calculation of mineral reserves and resources, delays, political and social stability in Africa (including our ability to maintain or renew licenses and permits) and other risks described in SEMAFO's documents filed 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 and available at www.sedar.com. These 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.





Sesame harvesting at Tawori

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2017 ANNUAL REPORT



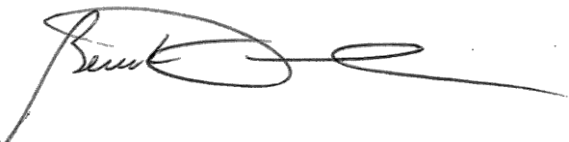
Management's Statement of Responsibility

The consolidated financial statements of SEMAFO Inc. (the "Corporation") and all information in this report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, which recognize the necessity of relying on some best estimates and informed judgments. Management has prepared the financial information presented elsewhere in the financial report and has ensured that it is consistent with that in the consolidated financial statements.

The Corporation maintains appropriate systems of internal control to give reasonable assurance that assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable information for the timely and accurate preparation of financial statements.

PricewaterhouseCoopers LLP, a partnership of Chartered Professional Accountants, are appointed by the shareholders and conducted an audit on the Corporation's consolidated financial statements. Their auditor's report is included herein.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is comprised entirely of independent directors and meets periodically with management and with the Corporation's external auditors to discuss the results of their audit examination and to review issues related thereto. The external auditors have full access to the Audit Committee with and without the presence of management. The Audit Committee reviews the consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors.



Benoit Desormeaux, CPA, CA
President and Chief Executive Officer



Martin Milette, CPA, CA
Chief Financial Officer

March 6, 2018

To the Shareholders of SEMAFO Inc.

We have audited the accompanying consolidated financial statements of SEMAFO Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SEMAFO Inc. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP¹

Montréal, Quebec, Canada

¹ CPA auditor, CA public accountancy permit no. A123475

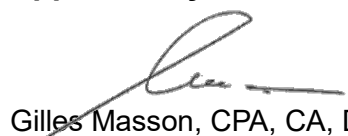
Consolidated Statements of Financial Position

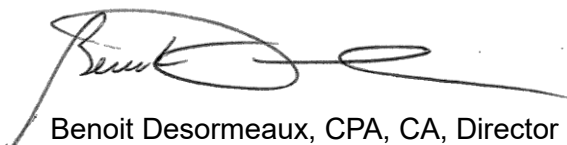
(Expressed in thousands of US dollars)

	As at December 31, 2017 \$	As at December 31, 2016 \$
Assets		
Current assets		
Cash and cash equivalents (note 6).....	198,950	273,772
Trade and other receivables (note 7)	22,649	16,945
Income tax receivable (note 16).....	3,186	—
Inventories (note 8).....	66,409	51,391
Other current assets.....	4,094	2,513
	295,288	344,621
Non-current assets		
Advance receivable (note 9)	2,867	3,060
Restricted cash (note 6).....	23,237	5,689
Property, plant and equipment (note 10).....	703,341	536,237
Intangible asset (note 9).....	1,374	1,595
Other non-current assets (note 11)	2,256	4,074
	733,075	550,655
Total assets	1,028,363	895,276
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 12)	72,720	41,964
Current portion of long-term debt (note 13).....	310	310
Current portion of finance lease (note 14).....	4,703	—
Share unit plan liabilities (note 22)	6,404	6,635
Provisions (note 15)	3,069	3,271
Income tax payable (note 16).....	—	5,422
	87,206	57,602
Non-current liabilities		
Long-term debt (note 13)	115,247	56,726
Finance Lease (note 14)	19,008	—
Share unit plan liabilities (note 22)	3,138	4,899
Provisions (note 15)	12,258	8,137
Deferred income tax liabilities (note 16).....	30,944	32,329
	180,595	102,091
Total liabilities	267,801	159,693
Equity		
Equity Shareholders		
Share capital	622,294	621,902
Contributed surplus.....	7,220	7,357
Accumulated other comprehensive income	2,256	1,095
Retained earnings.....	97,710	77,674
	729,480	708,028
Non-controlling interests	31,082	27,555
Total equity	760,562	735,583
Total liabilities and equity	1,028,363	895,276

Financial commitments and contingencies (note 26)

Approved by the Board of Directors,


Gilles Masson, CPA, CA, Director


Benoit Desormeaux, CPA, CA, Director

Consolidated Statements of Income

For the years ended December 31, 2017 and 2016

(Expressed in thousands of US dollars, except per share amounts)

	2017 \$	2016 \$
Revenue – Gold sales	258,993	300,483
Costs of operations		
Mining operation expenses (note 20)	134,385	131,953
Depreciation of property, plant and equipment	94,722	78,323
General and administrative (note 21)	14,069	13,953
Corporate social responsibility expenses	1,097	960
Share-based compensation (note 22)	3,226	6,295
Impairment of property, plant and equipment (note 10)	—	8,913
Operating income	11,494	60,086
Other expenses (income)		
Finance income	(3,294)	(2,171)
Finance costs (note 23)	1,309	1,938
Foreign exchange (gain) loss	(9,528)	1,144
Income before income taxes	23,007	59,175
Income tax expense (recovery)		
Current (note 16)	4,181	16,408
Deferred (note 16)	(4,737)	1,500
	(556)	17,908
Net income for the year	23,563	41,267
Attributable to:		
Equity shareholders	20,036	34,219
Non-controlling interests (note 24)	3,527	7,048
	23,563	41,267
Earnings per share (note 25)		
Basic	0.06	0.11
Diluted	0.06	0.11

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in thousands of US dollars)

	2017 \$	2016 \$
Net income for the year	23,563	41,267
Other comprehensive income		
Item that may be classified to net income		
Changes in fair value of available-for-sale assets (net of tax of nil) (note 19).....	1,161	1,095
Total comprehensive income for the year, net of tax	24,724	42,362
Attributable to:		
Equity shareholders	21,197	35,314
Non-controlling interests (note 24).....	3,527	7,048
	24,724	42,362

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in thousands of US dollars, except for per shares)

	Attributable to equity shareholders							Non-controlling interests	TOTAL EQUITY
	Share capital		Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total			
	Common shares ¹	Amount							
	(in thousands)	\$					\$		
Balance – January 1, 2016	294,321	516,070	10,685	—	48,242	574,997	30,866	605,863	
Net income for the year	—	—	—	—	34,219	34,219	7,048	41,267	
Other comprehensive income for the year									
Changes in fair value of the available-for-sale assets (net of tax of nil) (note19)	—	—	—	1,095	—	1,095	—	1,095	
Total comprehensive income for the year	—	—	—	1,095	34,219	35,314	7,048	42,362	
Shares issued from the exercise of options (note 17)	2,427	9,370	(3,328)	—	—	6,042	—	6,042	
Shares issued in public bought deal (net of share issued expenses of \$4,787) (note 17) ..	26,450	90,762	—	—	(4,787)	85,975	—	85,975	
Shares issued in consideration of financing costs on amendments to credit facility with Macquarie (note 17).....	1,642	5,700	—	—	—	5,700	—	5,700	
Dividend paid by a subsidiary to non-controlling interest.....	—	—	—	—	—	—	(10,359)	(10,359)	
Balance – December 31, 2016	324,840	621,902	7,357	1,095	77,674	708,028	27,555	735,583	
Balance – January 1, 2017	324,840	621,902	7,357	1,095	77,674	708,028	27,555	735,583	
Net income for the year	—	—	—	—	20,036	20,036	3,527	23,563	
Other comprehensive income for the year									
Changes in fair value of the available-for-sale assets (net of tax of nil) (note19)	—	—	—	1,161	—	1,161	—	1,161	
Total comprehensive income for the year, net of tax	—	—	—	1,161	20,036	21,197	3,527	24,724	
Shares issued from the exercise of options (note 17)	142	392	(137)	—	—	255	—	255	
Balance – December 31, 2017	324,982	622,294	7,220	2,256	97,710	729,480	31,082	760,562	

¹ There were no common shares that were unpaid as at December 31, 2017 (December 31, 2016: nil).

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in thousands of US dollars)

	2017 \$	2016 \$
Cash flows from (used in):		
Operating activities		
Net income for the year	23,563	41,267
Adjustments for:		
Depreciation of property, plant and equipment	94,722	78,323
Share-based compensation	3,226	6,295
Unrealized foreign exchange loss (gain)	(9,480)	358
Impairment of property, plant and equipment (note 10)	—	8,913
Deferred income tax expense (recovery)	(4,737)	1,500
Adjustment for withholding taxes	—	5,827
Other	(271)	(261)
	107,023	142,222
Changes in non-cash working capital items (note 27 a)	(30,115)	6,558
Net cash provided by operating activities	76,908	148,780
Financing activities		
Drawdown (repayment) of long-term debt (note 13)	60,000	(30,000)
Long-term debt transaction costs (note 13)	—	(259)
Repayment of equipment financing (note 13)	(310)	(129)
Payments of finance lease (note 14)	(5,128)	—
Proceeds on issuance of share capital, net of expenses (note 17)	255	92,017
Dividend paid by a subsidiary to non-controlling interest	—	(10,359)
Net cash provided by financing activities	54,817	51,270
Investing activities		
Acquisition of property, plant and equipment (note 27 c)	(201,346)	(90,890)
Increase in restricted cash	(16,808)	(1,390)
Net cash used in investing activities	(218,154)	(92,280)
Effect of exchange rate changes on cash and cash equivalents	11,607	(1,164)
Change in cash and cash equivalents during the year	(74,822)	106,606
Cash and cash equivalents – beginning of year	273,772	167,166
Cash and cash equivalents – end of year	198,950	273,772
Interest paid	6,576	4,150
Interest received	3,360	1,608
Income tax paid	12,109	10,816
Supplementary information on non-cash items (note 27 b)		

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

1. Incorporation and Nature of Activities of the Corporation

SEMAFO Inc. (the "Corporation") is governed by the Business Corporations Act (Quebec) and is listed on the Toronto Stock Exchange and on the NASDAQ OMX Stockholm exchange. The Corporation's headquarter is located at 100 Alexis-Nihon Boulevard, 7th floor, Saint-Laurent, Quebec, Canada, H4M 2P3.

The Corporation's subsidiaries are engaged in gold mining activities including exploration, development and operations. These activities are conducted in West Africa. The Corporation operates the Mana Mine in Burkina Faso, which includes the high-grade satellite deposit of Siou, and is targeting production start-up of the Boungou Mine in the third quarter of 2018. The Corporation's subsidiaries have interests in mining properties. The potential for recovery of costs incurred on these properties and of related deferred charges depends on the existence of sufficient quantities of reserves, the ability to obtain and maintain all required permits, the ability to obtain appropriate financing to put these mining properties into production and the ability to realize a profitable return for the Corporation.

2. Basis of Preparation

The Corporation's audited consolidated financial statements ("financial statements") are for the group consisting of SEMAFO Inc. and its subsidiaries. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Corporation has consistently applied the accounting policies used in the preparation of its IFRS financial statements, including the comparative figures. The Board of Directors approved the financial statements on March 6, 2018.

Basis of Measurement

These financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value, including available-for-sale financial assets.

Functional and Presentation Currency

Items included in the financial statements of each of the Corporation's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in US dollars, which are the Corporation and its subsidiaries' functional currency, and all values are rounded to the nearest thousands, except where otherwise indicated.

Foreign Currency Translation of Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are included in the consolidated statement of income within foreign exchange gain or loss.

Consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Corporation has control. The Corporation controls an entity when the Corporation is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between the Corporation's subsidiaries are eliminated. Unrealized gains or losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Corporation's accounting policies.

Disposal of subsidiaries

When the Corporation ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Corporation had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

2. Basis of Preparation (continued)

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management team that makes strategic decisions.

Significant Subsidiaries (Consolidated) – Ownership

	Country	December 31, 2017	December 31, 2016
SEMAFO Burkina Faso S.A.....	Burkina Faso	90%	90%
SEMAFO Boungou S.A.	Burkina Faso	90%	90%
Birimian Resources S.A.R.L.	Burkina Faso	100%	100%
Mana Minéral S.A.R.L.....	Burkina Faso	100%	100%
SEMAFO (Barbados) Ltd.....	Barbados	100%	100%

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include all cash on hand, balances with banks and money market investments as well as all highly liquid short-term investments with original maturities of three months or less or that can be redeemed at any time without penalties.

Inventories

Gold (doré bars and gold in circuit) is physically measured and valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Production costs include the cost of raw materials, direct labor, other direct costs and related mine-site overhead expenses (based on normal operating capacity), including applicable depreciation on property, plant and equipment.

Supplies, spare parts and ore in stockpiles are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

Net realizable value is the estimated selling price in the normal course of business, less estimated costs of completion and applicable selling expenses.

Property, Plant and Equipment

Items of property, plant and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses. Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Cost includes expenditures that are directly attributable to the acquisition, the development and the construction of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably.

The carrying amount of a replaced asset is derecognized when replaced. Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset.

Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate. Repairs and maintenance costs are charged to the consolidated statement of income during the period in which they are incurred.

Expenditures on major maintenance rebuilds or overhauls are capitalized when it is probable that the expenditure will extend the productive capacity or useful life of an asset.

i) Property acquisition costs, deferred exploration and development costs

Costs incurred that relate to developed and undeveloped proven and probable reserves and probable non-reserve material when sufficient objective evidence exists to support a conclusion that it is probable that the non-reserve material will be produced ("probable non-reserve material") are included in the depletable amount. The Corporation chooses to exclude from the depletable amount expected future development costs. Depletion is the systematic allocation of the depletable amount of an asset over its useful life. The depletable amount of an asset is the cost of an asset, or other amount substituted for cost, less its residual value.

3. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

i) Property acquisition costs, deferred exploration and development costs (continued)

Depreciation begins when a project is put into commercial production and is calculated using the units of production method over the expected operating life of the mine based on estimated recoverable ounces of gold. Estimated recoverable ounces of gold include proven and probable reserves and non-reserve material when sufficient objective evidence exists to support a conclusion that it is probable that the non-reserve material will be produced.

Exploration costs incurred on a property in production are capitalized in property, plant and equipment and depreciated over the underlying property estimated recoverable ounces of gold on the basis of the related area of interest.

ii) Buildings and equipment related to mining production

Buildings and equipment related to mining production are recorded at cost and depreciated net of residual value, using the units of production method, over the expected operating life of the mine based on estimated recoverable ounces of gold. However, if the anticipated useful life of the asset is less than the life of the mine, depreciation is based on its anticipated useful life.

iii) Assets under construction

Assets under construction include property, plant and equipment in the course of construction or use for its own purposes. The cost comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Assets under construction are classified to the appropriate category of property, plant and equipment when the costs are incurred. Assets under construction are carried at cost less any recognized impairment loss and are not subject to depreciation. Depreciation of these assets commences when the assets are ready for their intended use.

iv) Rolling stock, mining equipment, communication and computer equipment

Rolling stock, mining equipment, communication and computer equipment are recorded at acquisition cost. Depreciation is provided for using the declining balance method at a rate of 30%, with the exception of depreciation of the mining equipment, which is calculated according to the hours-of-use method based on its estimated useful life. The depreciation expense remains capitalized for mining assets not in commercial production and will be recognized in the consolidated statement of income gradually as the mining properties are put into commercial production.

v) Assets held under finance leases

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, the term of the lease contract.

vi) Stripping costs incurred in the production phase of a mining operation

In open pit mining operations, it is necessary to remove overburden and other waste materials to access ore from which minerals can be extracted economically. The process of mining overburden and waste materials is referred to as stripping. Stripping costs incurred in order to provide initial access to the ore body (referred to as pre-production stripping) are capitalized as mine development costs.

It may be also required to remove waste materials and to incur stripping costs during the production phase of the mine. The Corporation recognizes a stripping activity asset if all of the conditions below are met:

- i) It is probable that the future economic benefit (improved access to the component of the ore body) associated with the stripping activity will flow to the Corporation;
- ii) The Corporation can identify the component of the ore body for which access has been improved; and
- iii) The costs relating to the stripping activity associated with that component can be measured reliably.

The Corporation measures the stripping activity at cost based on an accumulation of costs incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable mine site overhead costs.

After initial recognition, the stripping activity asset is carried at cost less depreciation and impairment losses in the same way as the existing asset of which it is a part.

The stripping activity asset is depreciated over the expected useful life of the identified components of the ore body that becomes more accessible as a result of the stripping activity using the 'waste to ore' ratio method.

3. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

vii) Exploration properties

Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized as incurred. Exploration properties comprise mining rights and deferred exploration and evaluation expenses on properties at the exploration and evaluation stages and are recorded at acquisition cost.

Exploration expenditures typically include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore like topographical, geological, geochemical and geophysical studies.

Mining rights, deferred exploration and evaluation expenses, and options to acquire undivided interests in mining rights are amortized only when these properties are put into production.

Proceeds on the sale of exploration properties are applied to reduce the related carrying costs; any excess is reflected as a gain in the consolidated statement of income. Losses on partial sales are recognized and reflected in the consolidated statement of income.

Once the technical feasibility and commercial viability of the extraction of resources from a particular mineral property have been determined, which are assessed based on a combination of factors such as, among other things, the securing of financing and the obtaining of mining conventions and other permits, exploration and evaluation assets are tested for impairment and transferred to mineral properties under development within property, plant and equipment.

viii) Mineral properties under development

Mineral properties under development are the costs incurred subsequent to the establishment of the technical feasibility and commercial viability of the extraction of resources from a particular mineral property.

Capitalized costs, including mineral property acquisition costs and certain mine development and construction costs, are not depreciated until the related mining property has reached a level of operating capacity pre-determined by management, often referred to as commercial production.

The date of transition from construction to commercial production accounting is based on both qualitative and quantitative criteria such as substantial physical project completion, sustained level of mining, sustained level of processing activity, and passage of a reasonable period of time. Upon completion of mine construction activities (based on the determination of commercial production), costs are removed from mineral properties under development assets and incorporated into the appropriate categories of property, plant and equipment and supplies inventories.

Impairment of Non-Financial Assets

The Corporation's non-financial assets, such as property, plant and equipment and exploration properties are reviewed for an indication of impairment at each consolidated statement of financial position date and upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable. If indication of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected cash flows of the relevant assets or cash-generating units). A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. These are typically the individual mines. The exploration and evaluation assets located in the same area of interest of an operating mine are grouped with the existing cash-generating units for the purpose of the impairment test. Impairment losses are recognized in the consolidated statement of income for the period in which they occur.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. However, the impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

3. Summary of Significant Accounting Policies (continued)

Financial Instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive the cash flows from the financial asset have expired, or when the financial asset and all substantial risks and rewards have been transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and financial liabilities are measured initially at fair value or net of transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value. Financial assets and financial liabilities are measured subsequently as described below. The category of financial instruments determines subsequent measurement and whether any resulting income and expense is recognized in the consolidated statement of income or in other comprehensive income.

The Corporation's financial instruments are classified into one of these four categories:

- Financial assets and liabilities at fair value through profit or loss ("FVTPL")
- Available-for-sale investments
- Loans and receivables
- Financial liabilities at amortized cost

The classification is determined at initial recognition and depends on the nature and purpose of the financial instrument.

i) Financial assets and liabilities at FVTPL

Financial assets and liabilities are classified as FVTPL when the financial asset or liability is held for trading or it is designated as FVTPL.

A financial asset or liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets and liabilities classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statement of income.

ii) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Corporation's available-for-sale investment comprises investment in equity securities.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of it within twelve months.

When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the consolidated statement of income.

iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables are comprised of cash and cash equivalents, trade and other receivables (except value added tax; "VAT"), restricted cash and advance receivable, and are included in current assets except for the portion of restricted cash and the advance receivable expected to be realized beyond twelve months of the consolidated statement of financial position date, which is classified as non-current.

Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. Interest is recognized in the consolidated statement of income as part of finance income.

3. Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

iv) Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade payables, other financial liabilities, finance lease liability and long-term debt. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables and other financial liabilities are measured at amortized cost using the effective interest method. Finance lease is recognized initially at fair value and subsequently at amortized cost using the effective interest method; interest is capitalized as mineral properties under development. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest rate method. Interest is capitalized as mineral properties under development.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Transaction costs

Transaction costs related to financial assets at FVTPL are recognized as expenses as incurred. Transaction costs related to available-for-sale assets and loans and receivables are added to the carrying value of the asset, and transaction costs related to financial liabilities at amortized cost are netted against the carrying value of the liability. They are then recognized over the expected life of the instrument using the effective interest method.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Impairment of Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss, as follows:

- i. Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.
- ii. Available-for-sale investments: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income. Impairment losses on available-for-sale equity instruments are not reversed. This determination requires significant judgment. In making this judgment, the Corporation evaluates, among other factors, whether there is a significant or prolonged decline in the fair value of the investment which is considered as evidence of impairment.

Provisions

Provisions for environmental restoration, legal claims and executive compensation are recognized when the Corporation has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation as per management's best estimate using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a finance cost.

At each reporting date, the liability is increased to reflect the interest element or accretion reflected in its initial measurement, and will be adjusted for changes in the estimate of the amount, timing, change in discount rate and cost of the work to be carried out.

Provisions for asset retirement obligations represent the legal and constructive obligations associated with the eventual closure of the Corporation's property, plant and equipment. These obligations consist of costs associated with reclamation and monitoring of activities and the removal of tangible assets.

3. Summary of Significant Accounting Policies (continued)

Income Taxes

Tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, tax is also recognized in other comprehensive income or directly in equity, respectively.

i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute these amounts are those that are enacted or substantively enacted by the date of the consolidated statement of financial position.

Current tax assets and current tax liabilities are offset if, and only if, the taxable entity has a legally enforceable right to set off the recognized amounts, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

ii) Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the consolidated statement of financial position between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets and liabilities are recognized for all temporary differences, except:

- where the deferred income tax asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

A translation gain or loss may arise for deferred income tax purposes where the local tax currency is not the same as the functional currency for certain non-monetary items. A deferred tax asset or liability is recognized on the difference between the carrying amount for accounting purposes (which reflects the historical cost in the entity's functional currency) and the underlying tax basis (which reflects the current local tax cost, translated into the functional currency using the current foreign exchange rate). The translation gain or loss is recorded as deferred Income taxes in the Consolidated statements of income.

Revenue Recognition

The Corporation recognizes revenue when the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the Corporation, the Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Share-Based Compensation

The Corporation has four distinct share-based mechanisms for employees, directors, officers and consultants.

i) Options

The Corporation accounts for its share-based compensation options plans using the fair value method. This method consists of recording expenses to earnings over the vesting period of the options granted and the counterpart is accounted for in contributed surplus on the consolidated statement of financial position. The fair value is calculated based on the Black-Scholes option pricing model. When share options are exercised, any consideration paid, net of directly related transactional costs, are credited to share capital.

At the end of each reporting period, the Corporation revises its estimates of the number of options that are expected to vest. The Corporation recognizes the impact of the revision on the original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

3. Summary of Significant Accounting Policies (continued)

Share-Based Compensation (continued)

ii) Restricted Share Units ("RSUs")

The RSU Plan is a non-dilutive long-term incentive plan. RSUs may be granted to employees, directors, officers and consultants as part of their long-term compensation package entitling them to receive payout in cash based on the Corporation's share price at the relevant time. For each RSU granted, the corresponding liability is recorded at fair value and equals the average closing price of the Corporation's shares in the last five trading days prior to the end of the reporting period prorated over the vesting period according to the estimation made by management of the number of RSUs that will eventually vest.

As these RSUs will be settled in cash, the expense and liability are adjusted at each reporting period for changes in the underlying share price and the revision of the estimate made by management of the number of RSUs that will eventually vest. Variations are recognized in the consolidated statement of income in the period in which they are incurred.

iii) Deferred Share Units ("DSUs")

The DSU Plan is a non-dilutive long-term incentive plan in which employees, including senior management, directors and any other person designated by the Corporation, can participate. DSUs vest immediately at the grant date and are payable in cash. Pursuant to the DSU Plan, after the participant ceases to sit on the Board or be employed or retained by the Corporation a redemption date is proposed by the participant within the terms of the DSU plan ("Redemption date"). The redemption value of each DSU held by the participant is determined by multiplying the number of DSUs credited to this participant by the average closing prices of the Corporation's common shares in the last five trading days prior to the Redemption date.

As these DSUs will be settled in cash, the expense and liability are adjusted at each reporting period for changes in the underlying share price. Variations are recognized in the consolidated statement of income in the period in which they are incurred. DSU liability is classified in current liabilities as DSUs are payable at any time at the Redemption date.

iv) Performance Share Units ("PSUs")

The PSUs are granted under the RSU plan. PSUs can be granted to employees, directors, officers and consultants as part of their long-term compensation package, entitling them to receive payout in cash if the vesting conditions are met. For each PSU granted, the corresponding liability is recorded at fair value which is calculated based on a Monte Carlo simulation model. The value of the payout is determined by multiplying the number of PSUs vested at the end of the performance cycle by the average closing price of the Corporation's shares in the last five trading days prior to the end of said performance cycle and adjusted by a performance payout multiplier between 0% and 150%.

As these PSUs will be settled in cash, the expense and liability are adjusted at each reporting period for changes in the underlying share price and in weighted average payout based on the Monte Carlo simulation technique. Variations are recognized in the consolidated statement of income in the period in which they are incurred.

Dividends

Dividends on common shares are recognized in the Corporation's financial statements in the period in which the dividends are approved by the Board of Directors.

Non-Controlling Interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and other comprehensive income is recognized directly in equity even if the results of the non-controlling interests have a deficit balance.

The Corporation treats transactions with non-controlling interests as transactions with equity shareholders. Changes in the Corporation's ownership interest in subsidiaries that do not result in loss of control are accounted for as equity transactions.

Earnings Per Share

Basic earnings per share are calculated by dividing the net income (loss) for the year attributable to shareholders of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options and similar instruments is computed using the treasury stock method. The Corporation's potentially dilutive common shares comprise share options.

3. Summary of Significant Accounting Policies (continued)

Borrowing costs

Borrowing costs attributable to the acquisition, development or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Interests on long-term debt and finance lease are capitalized in mineral properties under development until the related mining property has reached commercial production.

Lease

Leases in which the Corporation assumes substantially all risks and rewards of ownership are classified as finance leases. Assets held under finance leases are recognized as Property, Plant and Equipment at the lower of the fair value and the present value of minimum lease payments at inception of the lease. All other leases are classified as operating leases. Operating lease payments are recognized as an operating cost in profit or loss on a straight-line basis over the lease term.

4. New Accounting Standards Issued but not yet in Effect

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

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

This Standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only three classification categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flows characteristics of the financial asset or liability. The Standard introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses. The new Standard also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity and aligns hedge accounting more closely with risk management. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Corporation has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on January 1, 2018:

- The Corporation's equity instruments that are currently classified as available-for-sale will satisfy the conditions for classification as at fair value through other comprehensive income ("FVOCI") and hence there will be no change to the accounting for these assets. However, gains or losses realized on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings. During the 2017 financial year, there were no gains or losses in profit or loss in relation to the disposal of available-for-sale financial assets.
- Modifications/amendments of long-term debt. Under IAS 39, when there is a modification or an exchange of a financial liability, it must determine whether that modification results in the financial liability being derecognized. When there is no derecognition, IAS 39, allow the difference between the carrying value of the original debt and discounted present value of the cash flows under the new terms to be recognized prospectively over the remaining life of the long-term debt. IFRS 9 changes the accounting for modifications of financial liabilities. That is, when a financial liability measured at amortized cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. The Corporation determined that the impact of the new accounting for prior periods debt modifications or amendments is not significant to its prior years financial statements and therefore there will be no impact upon adoption of the new standard on January 1, 2018.
- The Corporation has determined that there is no impact on other financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Corporation does not have any such liabilities.
- The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Corporation's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

4. New Accounting Standards Issued but not yet in Effect (continued)

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, 2018 with early adoption permitted. The Corporation has determined that the extent of the impact of adoption of IFRS 15 is not significant.

IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16 which establishes the principles that an entity should use to determine the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17, *Leases*, and related Interpretations. IFRS 16 is effective from January 1, 2019 though a company can choose to apply IFRS 16 before that date but only in conjunction with IFRS 15. The Corporation has not yet determined the extent of the impact of adopting IFRS 16.

Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions ("IFRS 2")

On June 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The effective date is January 1, 2018.

The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for:

- a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- b) share-based payment transactions with a net settlement feature for withholding tax obligations; and
- c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Corporation has determined that there is no impact upon the adoption of the amendments to IFRS 2.

IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration ("IFRIC 22")

IFRIC 22 clarifies that: i) the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset and deferred income liability; and ii) if there are multiple payments or receipt in advance, a date of transaction is established for each payment or receipt. IFRIC 22 is applicable for annual periods beginning on or after January 1, 2018.

The Corporation has decided to apply IFRIC 22 prospectively on January 1, 2018 with no restatement of comparative information. Therefore, there is no impact of IFRIC 22 as at December 31, 2017.

IFRIC 23, Uncertainty over income tax treatments ("IFRIC 23")

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

- a) Whether an entity considers uncertain tax treatments separately
- b) The assumptions an entity makes about the examination of tax treatments by taxation authorities
- c) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- d) How an entity considers changes in facts and circumstances

IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019. The extent of the impact of adoption of IFRIC 23 has not yet determined.

5. Critical Accounting Estimates and Judgments

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 the circumstances. The estimates and assumptions that have a significant risk of causing material adjustments to the Corporation's financial statements are addressed below.

Mineral Reserves

The estimation of mineral reserves is a complex process involving variables of very uncertain natures and requiring important and advisable decisions. This process involves variables such as geological data on the structure of each pit, production cost estimates and future gold price. The mineral reserve estimates are calculated by qualified persons in accordance with the definitions and guidelines adopted by the Canadian Institute of Mining, Metallurgy and Petroleum.

Mineral reserve estimation may vary as a result of changes in the price of gold, production costs, and with additional knowledge of the ore deposits and mining conditions.

The reserve estimates may have a great impact on the information contained in the financial statements. A number of accounting estimates, as described below, are formulated from the reserve estimates.

Establishment of technical feasibility and commercial viability of a mineral property

The establishment of technical feasibility and commercial viability of a particular mineral property is assessed based on a combination of factors. By its nature, this assessment requires significant judgment.

As at December 31, 2016, management determined that the technical feasibility and commercial viability had been established for the Natougou project and as such the underlying mineral property is no longer considered to be at the exploration and evaluation stage. Consequently, certain costs included in "exploration and evaluation assets" have been reclassified into "Mineral properties under development" and a mandatory impairment test has been performed immediately prior to the reclassification. Please refer to note 10 of the consolidated financial statements for more details.

Impairment of Non-Financial Assets

Assets are reviewed for an indication of impairment at each consolidated statement of financial position date upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable and when criteria of assets held for sale are met. This determination requires significant judgment. Factors that could trigger an impairment review include, but are not limited to, significant negative industry or economic trends including the price of gold, and current, historical or projected losses that demonstrate continuing losses, decrease in market capitalization and deferral of capital investments.

The Corporation's recoverable amount measurement with respect to the carrying amount of non-financial assets is based on numerous assumptions and may differ significantly from actual recoverable amount.

The recoverable amount is based, in part, on certain factors that may be partially or totally outside of the Corporation's control. This evaluation involves a comparison of the estimated recoverable amount of non-financial assets to its carrying values. The Corporation's recoverable amount estimates are based on numerous assumptions such as, but not limited to, estimated realized gold prices, operating costs, gold recovery, mineral reserves and resources, capital and site restoration expenditures, potential offers of the mine for sale and estimated future foreign exchange rates, and may differ from actual values. These differences may be significant and could have a material impact on the Corporation's financial position and results of operation. Mineral reserve and resource estimates are the most important variable in the Corporation's recoverable amount estimates. A decrease in the reserves or resources may result in an impairment charge, which could reduce the Corporation's earnings.

Management's estimates of future cash flows are subject to risk and uncertainties. Therefore, it is reasonably possible that changes could occur with evolving economic conditions, which may affect recoverability of the Corporation's non-financial assets.

For the Corporation's projects that are still in the exploration and evaluation stage, factors which could trigger an impairment review include, but are not limited to, an expiry of the right to explore in the specific area during the period or will expire in the near future, and is not expected to be renewed; substantive exploration and evaluation expenditures in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the Corporation has decided to discontinue such activities in the specific area; sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the assets is unlikely to be recovered in full from successful development or by sale; significant negative industry or economic trends; interruptions in exploration and evaluation activities; and a significant drop in current or forecasted gold prices.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

5. Critical Accounting Estimates and Judgments (continued)

Impairment of Non-Financial Assets (continued)

For the year ended December 31, 2017, the total impairment loss on the exploration and evaluation assets within "property, plant and equipment" amounted to nil (2016: \$ 8,913,000) and was recognized in the consolidated statement of income. Please refer to note 10 of the consolidated financial statements for more details.

Depreciation of Property, Plant and Equipment

A large portion of the property, plant and equipment is depreciated using the units of production method over the expected operating life of the mine based on estimated recoverable ounces of gold, which are the prime determinants of the life of a mine. Estimated recoverable ounces of gold include proven and probable reserves and non-reserve material when sufficient objective evidence exists that it is probable the non-reserve material will be produced. Changes in the estimated mineral reserves will result in changes to the depreciation charges over the remaining life of the operation. A decrease in the mineral reserves would increase depreciation expense, and this could have a material impact on the operating results. The amortization base is updated as needed based on the new mineral estimates.

Asset Retirement Obligations

Asset retirement obligations arise from the development, construction and normal operation of mining property, plant and equipment as mining activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and expenditures have been made, and will be made in the future, to comply with such changing laws and regulations.

The estimated present value of reclamation liabilities is recorded in the period in which they are incurred. A corresponding increase to the carrying amount of the related asset is recorded and depreciated over the life of the asset. The liability will be increased each period to reflect the interest element or accretion reflected in its initial measurement at fair value, and will also be adjusted for changes in the estimate of the amount, in timing, in discount rate and in cost of the work to be carried out.

Future remediation costs are accrued based on management's best estimate at the end of each period of the undiscounted cash costs expected to be incurred at each site. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs that will be incurred to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. The estimates are dependent on labor costs, known environmental impacts, the effectiveness of remedial and restoration measures, inflation rates and pre-tax interest rates that reflect current market assessment for the time value of money and the risks specific to the obligation. Management also estimates the timing of the outlays, which is subject to change depending on continued operations and newly discovered mineral reserves.

Actual costs incurred may differ from those estimated amounts. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Corporation. Increases in future costs could materially impact the operating results. Asset retirement obligations studies were completed in 2016 and 2017. The financial impact of the study is described in note 15 of the consolidated financial statements.

Income Taxes

The Corporation is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Periodically, judgment is required in determining whether deferred tax assets are recognized on the consolidated statement of financial position. Deferred tax assets, including those arising from unused tax losses, require management to assess the probability that the Corporation will generate taxable profits in future periods, in order to utilize deferred tax assets. Once the evaluation is completed, if the Corporation believes that it is probable that some portion of deferred tax assets will fail to be realized, deferred tax asset is derecognized. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Corporation operates could limit its ability to obtain tax deductions in future periods.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

5. Critical Accounting Estimates and Judgments (continued)

Income Taxes (continued)

Management's judgment is required in determining whether a deferred tax liability is recognized on temporary differences arising on investments in subsidiaries. Judgment is necessary in asserting management's intentions about the reinvestment of undistributed profit in the foreseeable future. Estimates on reinvestments are based on forecasts and on estimates of financial requirements of both the Corporation and its subsidiaries. To the extent that future results and financial requirements differ significantly from estimates, the deferred tax liability provided on temporary differences arising from investments in subsidiaries recorded at the reporting date could be impacted.

Uncertain Tax Positions

The estimates relating to the different tax assessments received from the Government of Burkina Faso necessarily involves a degree of estimation and judgment with regard to certain items whose tax treatment cannot be finally determined until a resolution of an opposition process has been reached with the relevant taxation authority or, as appropriate, through a formal legal process.

The inherent uncertainty regarding the outcome of these items means that eventual resolution could differ from the accounting estimates and therefore impact the Corporation's financial position, results of operations and cash flows. The financial impact of the estimate is reported in note 15 of the consolidated financial statements.

Measurement of Financial Instruments

The fair value of financial instruments that are not traded on an active market is determined by using valuation techniques. The Corporation uses its judgment in assessing if a market is considered active as per its policies. The Corporation also uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Corporation has used the market approach valuation technique for available-for-sale financial assets that are not traded on an active market.

The Corporation follows the guidance of IAS 39, *Financial Instruments: Recognition and Measurement* to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. In making this judgment, the Corporation evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Leases

The most significant estimate in the assessment of leases classification lies in the Corporation's calculation of the fair value of the minimum lease payments on an asset by asset basis and its comparison to the fair value of the assets at the inception of the lease to conclude whether all the risks and rewards incidental to ownership of the leased items were transferred to the Corporation as a lessee.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

6. Cash

	As at December 31, 2017 \$	As at December 31, 2016 \$
Cash and Cash equivalents		
Cash	78,849	114,132
Cash equivalents (a)	120,101	159,640
Total Cash and Cash equivalents	198,950	273,772
 Restricted Cash		
Deposit account in relation with the Credit Facility with Macquarie (note 13)	15,000	—
Funds held in trust for asset retirement obligations	7,256	4,647
Other	981	1,042
Total Restricted Cash	23,237	5,689
Total Cash and Cash Equivalents and Restricted Cash	222,187	279,461

(a) Despite some bank deposits having an original investment period of over 90 days, they are deemed highly liquid cash equivalent items as they can be redeemed at any time without penalties.

7. Trade and Other Receivables

	As at December 31, 2017 \$	As at December 31, 2016 \$
Gold trade receivables	560	90
Other receivables	21,196	16,068
Current portion of the advance receivable (note 9)	893	787
	22,649	16,945

Gold trade receivables relate to gold shipments not yet collected. They are non-interest bearing and are generally settled within 15 days after the date of shipment. The trade receivables are neither past due nor impaired.

Other receivables include VAT receivables totaling \$20,178,000 as at December 31, 2017 (December 31, 2016: \$14,905,000). They are non-interest bearing and are generally settled within one to twelve months.

For the year ended December 31, 2017, no provision expense was recorded on VAT receivables (2016: \$753,000).

The Corporation holds no collateral for any receivable amounts outstanding as at December 31, 2017 (December 31, 2016: nil).

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

8. Inventories

	As at December 31, 2017 \$	As at December 31, 2016 \$
Doré bars.....	—	—
Gold in circuit.....	13,775	9,305
Stockpiles	11,114	6,475
Supplies and spare parts.....	41,520	35,611
	66,409	51,391

The cost of inventory that was charged to expenses represents mostly mining operation expenses and essentially all of the depreciation of property, plant and equipment.

For the year ended December 31, 2017, mainly in relation to spare parts, a provision expense amounting to \$2,995,000 (2016: \$2,469,000) and a reversal of provision amounting to \$597,000 (2016: \$222,000) were recorded.

9. Advance Receivable and Intangible Asset

On October 1, 2011, the Corporation entered into an agreement with National Electricity Company ("Sonabel"), in Burkina Faso, pursuant to which the Corporation advanced an amount for the construction of a high-voltage transmission line to deliver power to the Mana Mine. Reimbursements to the Corporation by Sonabel began at the end of the first quarter of 2016 and should continue over a seven-year period in accordance with the agreement.

The advance is non-interest bearing and is measured at amortized cost using the effective interest rate method, which has been determined using a weighted average discount rate of 7%. The intangible asset represents the difference between the amount paid to Sonabel and the advance receivable recorded at the date of transaction. This intangible asset represents the right to obtain future benefits from the future supply of energy and is amortized over the useful life of the mine. The depreciation is recognized in the consolidated statement of income and classified within "depreciation of property, plant and equipment".

	Advance receivable \$	Intangible asset \$	Total \$
As at January 1, 2016.....	4,532	1,856	6,388
Variation due to exchange rate, interest revenue, amortization and reimbursements	(685)	(261)	(946)
As at December 31, 2016	3,847	1,595	5,442
Variation due to exchange rate, interest revenue and amortization	755	(221)	534
Reimbursements.....	(842)	—	(842)
As at December 31, 2017.....	3,760	1,374	5,134
Current portion classified in "trade and other receivables"	(893)	—	(893)
Non-current portion	2,867	1,374	4,241

As at December 31, 2017, the advance receivable amounted to \$3,760,000 (2,059,041,000 FCFA) and the intangible asset amounted to \$1,374,000. The undiscounted value of the advance receivable was \$4,468,000 (2,446,289,000 FCFA).

As at December 31, 2016, the advance receivable amounted to \$3,847,000 (2,391,429,000 FCFA) and the intangible asset amounted to \$1,595,000. The undiscounted value of the advance receivable was \$4,722,000 (2,935,547,000 FCFA).

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

10. Property, Plant and Equipment

	Property, acquisition costs, deferred exploration and development costs	Exploration and evaluation assets (ii)	Mineral properties under develop- ment (iii)	Buildings and equipment related to mining production	Mining equipment (v)	Rolling stock, communi- cation and computer equipment	TOTAL
	\$	\$	\$	\$	\$	\$	\$
Year ended December 31, 2017							
Opening net book amount.....	184,155	27,207	179,051	102,751	40,110	2,963	536,237
Additions	61,851	4,091	162,736	5,233	36,395	1,153	271,459
Retirement of assets	—	—	—	(588)	(25)	—	(613)
Depreciation charge	(72,603)	—	—	(14,328)	(16,037)	(774)	(103,742)
Closing net book amount.....	173,403	31,298	341,787	93,068	60,443	3,342	703,341
As at December 31, 2017							
Cost	501,724	31,298	341,787	201,947	118,849	12,257	1,207,862
Accumulated depreciation.....	(328,321)	—	—	(108,879)	(58,406)	(8,915)	(504,521)
Net book amount.....	173,403	31,298	341,787	93,068	60,443	3,342	703,341
Assets not subject to depreciation included in above (i)	—	31,298	341,787	2,234	9,025	240	384,584
Year ended December 31, 2016							
Opening net book amount.....	182,676	182,097	—	114,400	46,254	3,660	529,087
Additions	49,475	33,074	—	5,693	12,059	333	100,634
Reclassification	—	(179,051)	179,051	—	—	—	—
Retirement of assets	(213)	—	—	(895)	(2,893)	(31)	(4,032)
Impairment (iv).....	—	(8,913)	—	—	—	—	(8,913)
Depreciation charge	(47,783)	—	—	(16,447)	(15,310)	(999)	(80,539)
Closing net book amount	184,155	27,207	179,051	102,751	40,110	2,963	536,237
As at December 31, 2016							
Cost	439,873	27,207	179,051	198,582	101,486	11,104	957,303
Accumulated depreciation.....	(255,718)	—	—	(95,831)	(61,376)	(8,141)	(421,066)
Net book amount.....	184,155	27,207	179,051	102,751	40,110	2,963	536,237
Assets not subject to depreciation included in above (i)	—	27,207	179,051	1,519	13,718	16	221,511

(i) Assets not subject to depreciation include critical spare parts not yet installed of \$9,464,000 (December 31, 2016: \$6,739,000) as well as assets under construction, in transit or exploration and evaluation assets of \$375,120,000 (December 31, 2016: \$214,772,000).

(ii) Exploration and evaluation assets mainly comprise farm-in agreements, mining rights and exploration and evaluation expenditures which typically include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore such as topographical, geological, geochemical and geophysical studies.

(iii) Boungou Project

In 2015, the Corporation completed the acquisition of all Orbis shares and as a result, it acquired the Boungou gold project. On February 25, 2016, the Corporation announced the results of the feasibility study of the Boungou project. On March 29, 2016, the Corporation amended its credit facility with Macquarie Bank Limited ("Macquarie") in order to secure sufficient financial resources to bring Boungou into production. On December 22, 2016, the Council of Ministers of Burkina Faso approved the award of the Boungou mining permit. Upon the formal award of the mining decree, the Government of Burkina Faso is entitled to a 10% interest in the project therefore reducing the Corporation's interest to 90%.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

10. Property, Plant and Equipment (continued)

(iii) Boungou Project (continued)

On December 22, 2016, management determined that the technical feasibility and commercial viability of the Boungou Project had been established and, accordingly, the Corporation reclassified capitalized costs associated with the Boungou Project from "exploration and evaluation assets" to "mineral property under development" within "property, plant and equipment". Amounts capitalized on the Boungou Project will be carried at cost until the project has reached commercial production, is sold, abandoned or determined by management to be impaired.

The related exploration and evaluation assets were tested for impairment immediately prior to reclassification out of the "exploration and evaluation assets". In assessing the Boungou Project for potential impairment, management used the 'value in use' approach, which is the present value of the future cash flow expected to derive from the Boungou Project. Results from the testing showed that the value in use was higher than the carrying amount of the CGU. Therefore, no impairment charge was required prior to the reclassification to "mineral property under development".

The amount of borrowing costs capitalized for the year ended ended December 31, 2017 represented \$8,492,000 (2016: \$4,584,000). Borrowing costs consisted of interest expense and amortization of deferred transaction costs on the credit facility with Macquarie (note 13) and finance costs related to the finance lease (note 14).

(iv) Impairment

During the year ended December 31, 2016, the Corporation recorded an impairment loss of \$8,913,000 previously capitalized as "exploration and evaluation assets" within "property, plant and equipment". The Corporation has no plans to further develop the Banfora Zone as substantive expenditure on further exploration and evaluation of mineral resources in the Banfora Zone is neither budgeted nor planned. Consequently, the exploration rights costs and capitalized exploration and evaluation expenses for this property have been written off within the "other exploration" segment and have been included as "impairment of property, plant and equipment" in the consolidated statement of income.

- (v) During the third quarter of 2017, the Corporation capitalized \$28,839,000 as "mining equipment" related to the finance lease (note 14).

11. Other Non-Current Assets

	As at December 31, 2017 \$	As at December 31, 2016 \$
Investment in GoviEx Uranium Inc ("GovEx") (note 18).....	2,108	1,095
Financing fees relating to the Credit Facility (note 13).....	—	2,979
Other	148	—
	2,256	4,074

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

12. Trade Payables and Accrued Liabilities

	As at December 31, 2017 \$	As at December 31, 2016 \$
Trade payables	55,383	28,989
Royalty and withholding tax	3,965	3,669
Other accrued expenses	13,372	9,306
	72,720	41,964

All payables are unsecured, non-interest bearing, incurred in the normal course of the Corporation's business operations and during the construction phase of the Boungou Mine, and are within the credit terms of each relevant supplier or service provider.

13. Long-Term Debt

Long-term debt consists of the following:

	As at December 31, 2017 \$	As at December 31, 2016 \$
Credit facility (a)	120,000	60,000
Unamortized deferred transaction costs	(4,934)	(3,765)
Equipment financing (b)	491	801
Long-term debt, net of deferred transaction costs	115,557	57,036
Current portion	310	310
Non-current portion	115,247	56,726
	115,557	57,036

(a) Credit Facility with Macquarie

As at December 31, 2017, the Credit Facility amounted to \$120,000,000 and bore interest at a rate equal to LIBOR plus 4.75% per annum, principal repayable in eight equal quarterly installments of \$15,000,000, the first principal repayment starting March 31, 2019. The Credit Facility is secured by a pledge of all assets of SEMAFO Inc., which include SEMAFO (Barbados) Ltd. shares.

The Corporation is required to maintain an amount of \$25,000,000 in a distinct account. This requirement will be lifted when the Corporation commences commercial production at its Boungou Mine and the Credit Facility amount has been lowered to \$90,000,000. In addition, the Corporation is required to deposit \$15,000,000 until the Credit Facility is less than or equal to \$30,000,000; this amount was recorded as restricted cash (note 6).

The Credit Facility is subject to maintaining the minimum following consolidated covenants on a quarterly basis, until the date of commercial production at its Boungou Mine:

- Current Ratio of greater than 1.00:1.00
- Ratio of Forecast Cash Flow to Net Debt of not less than 1.50:1.00

As at December 31, 2017, all covenants were met.

The Corporation may prepay amounts outstanding under the Credit Facility in whole or in part at any time, without penalty.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

13. Long-Term Debt (continued)

Background

i) Original terms

On March 3, 2015, the Corporation entered into a credit facility amounting to \$90,000,000 ("Original Credit Facility") with Macquarie. In consideration for the Original Credit Facility, the Corporation incurred financing fees amounting to \$2,550,000, of which \$1,200,000 was paid in cash and \$1,350,000 in common shares of the Corporation. The Original Credit Facility bore interest at a rate equal to LIBOR plus 6.5% per annum, with the principal repayable initially in three equal annual installments. The first principal repayment of \$30,000,000 was made on March 3, 2016.

ii) 2016 amendments

In 2016, the Corporation entered into two amendments to the Original Credit Facility, which consisted of an increase in available credit facility from \$60,000,000 to \$120,000,000 with the New Advance to be drawn by June 30, 2017. The interest rate was reduced to LIBOR plus 4.75% per annum, with the principal repayable in eight equal quarterly installments of \$15,000,000, the first principal repayment starting March 31, 2019.

The Corporation incurred financing fees of \$5,959,000 related to the New Advance of which \$5,700,000 were settled in common shares of the Corporation and \$259,000 were settled in cash. The financing fees of \$5,959,000 were recorded proportionately against the amount drawn and will be amortized using the effective interest rate method. As at December 31, 2016, half of the financing fees, which represented \$2,980,000, were classified as unamortized deferred transaction costs and the other half of \$2,979,000 were capitalized in "other non-current assets" in the Consolidated Statement of Financial Position and were not subject to amortization since the New Advance had not been drawn.

All amendments were accounted for as a modification of debt.

iii) 2017 Drawdown

On June 20, 2017, the Corporation drew down the incremental \$60,000,000 of the Credit Facility. The related financing fees of \$2,979,000 capitalized in "other non-current assets" were reclassified as unamortized deferred transaction costs against the Credit facility.

(b) Equipment financing

In May 2016, the Corporation purchased equipment, a portion of which was financed by the supplier for an initial amount of \$930,000 ("Equipment financing"). The Equipment financing bears interest at a rate of 7.25% per annum. The interest and principal are payable in 36 monthly installments commencing in August 2016. As at December 31, 2017, the outstanding Equipment financing amounted to \$491,000.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

14. Finance Lease

In July 2017, the Corporation entered into a mining services agreement ("Mining Agreement") with African Mining Service Burkina Faso SARL ("AMS") for the Boungou Mine. The Mining Agreement has an initial duration of five years and can be extended by the Corporation under the period, terms and conditions negotiated by both parties before the end of the contract.

The mining services provided by AMS include the extraction and haul of the ore and waste in a safe and efficient manner to ensure feed to the plant or designated stockpiles. AMS will also provide a skilled labor force and the equipment needed to perform the mining services. The Corporation remains responsible for the mining plan.

Based on the substance of the Mining Agreement at the inception date, it was determined that it contains a finance lease with respect to the mining fleet. The Corporation recognized \$28,839,000 as a finance lease asset and a corresponding amount as a finance lease obligation.

The implied finance costs on the liability were determined based on the Corporation's incremental borrowing rate which has been estimated at 7%.

Finance lease consists of the following:

	As at December 31, 2017 \$	As at December 31, 2016 \$
Opening balance, Finance Lease.....	—	—
New debt obligations under finance lease.....	28,839	—
Mobilization payment during the year.....	(2,896)	—
Payments during the year	(2,232)	—
Ending Balance, Finance Lease.....	23,711	—
Current portion	4,703	—
Non-current portion	19,008	—
	23,711	—

The future minimum lease payments with respect to the Corporation's finance lease are as follows:

	Less than one year \$	Between one year and five years \$	Total
Minimum lease payments	4,703	19,008	23,711
Financial charges.....	1,511	2,439	3,950
	6,214	21,447	27,661

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

15. Provisions

	As at December 31, 2017 \$	As at December 31, 2016 \$
Current.....	3,069	3,271
Non-current.....	12,258	8,137
	15,327	11,408

	Asset retirement obligations \$	Other \$	Total \$
As at January 1, 2016.....	6,676	6,983	13,659
Variation due to additional provisions, accretion expense, exchange rate and provision used during the year	974	147	1,121
Portion classified in "trade payables and accrued liabilities"	—	(964)	(964)
Reversal of provisions	—	(2,408)	(2,408)
As at December 31, 2016	7,650	3,758	11,408
Additional provisions.....	3,753	—	3,753
Variation due to accretion expense, exchange rate and provision used during the year.....	536	(370)	166
As at December 31, 2017.....	11,939	3,388	15,327

Asset Retirement Obligations

The liability for asset retirement obligations as at December 31, 2017 was \$11,939,000 (December 31, 2016: \$7,650,000). It includes an additional provision of \$3,343,000 resulting from the 2017 study for asset retirement obligations of the Boungou mine. The estimated undiscounted value of this liability was \$18,389,000 (December 31, 2016: \$11,335,000). These disbursements are expected to be made during the years 2018 to 2030.

In 2016, an asset retirement obligation study for the subsidiary in Burkina Faso was conducted. From the results of the study, a new estimate of the asset retirement obligation required more provision, which resulted in a net increase of asset retirement obligation by \$135,000. A gain of \$404,000 was recorded as a reduction of "depreciation expense" and an increase of \$539,000 was recorded in "property, plant and equipment".

In the year ended December 31, 2017, an accretion expense component of \$536,000 (2016: \$467,000) was charged to operations in "finance costs" to reflect an increase in the carrying amount of the asset retirement obligation which was determined using a weighted average discount rate of 7% (2016: 7%).

Other

- Other provisions include a special compensation arrangement of \$539,000 as at December 31, 2017 (December 31, 2016: \$693,000) made with the former President and Chief Executive Officer for which the undiscounted value of the special compensation arrangement was \$573,000 (December 31, 2016: \$741,000). The disbursements are expected to be made during the years 2018 to 2020.
- Other provisions also include various tax exposures amounting to \$2,849,000 as at December 31, 2017 (December 31, 2016: \$3,065,000). From time to time, the Corporation is subject to a review of its income tax filings and other taxes and, in connection with such reviews, disputes can arise with the taxation authorities over the interpretation or application of certain rules to the Corporation's business conducted in a given country.

In October 2016, the Corporation received a tax assessment from the Burkinabé tax authorities covering the years 2013 to 2015 totaling \$8,288,000 (4,537,818,000 FCFA), which includes \$1,485,000 (813,329,000 FCFA) in penalties and mainly covers withholding taxes. The Corporation is vigorously defending its positions and has initiated administrative procedures of revision.

The inherent uncertainty regarding the outcome of these disputes means that the eventual resolution could differ from the accounting estimates and therefore could impact the Corporation's financial position and results of operations.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

16. Income Taxes

a) Deferred Income Tax

The movement in deferred income tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Unrealized foreign exchange losses \$
Deferred tax assets	
As at January 1, 2016	82
Charged to consolidated statement of income	363
Exchange differences	(16)
As at December 31, 2016	429
Credited to consolidated statement of income	(60)
Exchange differences	53
As at December 31, 2017	422

The movement in deferred income tax liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Inventories \$	Property, plant and equipment \$	Reserve \$	Investments in subsidiaries \$	Total \$
Deferred tax liabilities					
As at January 1, 2016	(186)	(27,533)	291	(4,500)	(31,928)
Charged (credited) to consolidated statement of income	(723)	(2,889)	(302)	2,051	(1,863)
Exchange differences	31	998	4	—	1,033
As at December 31, 2016	(878)	(29,424)	(7)	(2,449)	(32,758)
Charged (credited) to consolidated statement of income	(106)	8,268	—	(3,365)	4,797
Exchange differences	(125)	(3,280)	—	—	(3,405)
As at December 31, 2017	(1,109)	(24,436)	(7)	(5,814)	(31,366)

The net operating losses carried forward and deductible temporary differences for which deferred tax assets have not been recognized amounted to \$93,009,000 as at December 31, 2017 (2016: \$58,340,000). Of these amounts, \$7,326,000 (2016: \$4,160,000) had no expiration date as at December 31, 2017 and \$85,683,000 (2016: \$54,180,000) in respect of losses and donations that can be carried forward against future taxable income will expire between 2018 and 2037.

In addition, the Corporation has \$26,644,000 (2016: \$23,942,000) of net capital losses carried forward for which deferred tax assets have not been recognized. Net capital losses can be carried forward indefinitely and can only be used against future taxable capital gains.

As at December 31, 2017, no deferred tax liabilities were recognized for temporary differences of \$281,372,000 (2016: \$307,648,000) related to investments in subsidiaries because Semafo controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

16. Income Taxes (continued)

b) Income Tax Expense

	2017 \$	2016 \$
Current tax		
Current tax on profits for the year.....	4,174	16,394
Adjustments in respect of prior years	7	14
Total current tax	4,181	16,408
Deferred tax		
Origination and reversal of temporary differences.....	(4,737)	1,500
Income tax expense (recovery)	(556)	17,908

The tax on the Corporation's income before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2017 \$	2016 \$
Income before income taxes	23,007	59,175
Canadian combined tax rate	26.80%	26.90%
Tax calculated at Canadian combined tax rate	6,166	15,918
Tax effects of:		
Difference in tax rate of foreign subsidiaries	(2,093)	(6,690)
Unrecorded tax benefits	4,097	1,626
Recognition of previously non-recognized tax benefit.....	—	48
Expenses (income) not deductible for tax purposes.....	(3,650)	2,251
Non-deductible capital losses.....	(717)	(763)
Adjustment in respect of prior years	52	351
Foreign exchange gain (loss) not materialized.....	(134)	28
Effect of currency translation on tax base	(8,809)	1,843
Other taxes included in income tax expense.....	4,199	2,838
Other	333	458
Income tax expense (recovery)	(556)	17,908

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

17. Share Capital

a) Authorized

The Corporation has authorized:

- Unlimited number of common shares without par value
- Unlimited number of Class “A” preferred shares, no par value, non-voting, non-participating and redeemable at the option of the holder at a price of \$0.23 (C\$0.32) per share
- Unlimited number of Class “B” preferred shares, no par value, non-voting, non-participating and redeemable at the option of the Corporation at a price of \$0.09 (C\$0.12) per share

b) Share issuances

Shares issued in consideration of financing costs on long-term debt

On March 29, 2016, the Corporation entered into an amendment to the Original Credit Facility agreement with Macquarie. The Corporation incurred financing fees of \$5,959,000 related to the New Advance of which \$5,700,000 was settled by issuing 1,642,479 common shares of the Corporation.

Bought Deals 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.

Options

A total of 142,000 options were exercised during the year ended December 31, 2017, under both the Original Plan and the 2010 Plan for a cash consideration of \$255,000. An amount of \$137,000 has been reclassified from contributed surplus to share capital. For the same period in 2016, a total of 2,427,000 options were exercised under both the Original Plan and 2010 Plan for a cash consideration of \$6,042,000. An amount of \$3,328,000 has been reclassified from contributed surplus to share capital.

18. Capital risk management

Capital is defined as equity shareholders plus long-term debt (Credit Facility).

	As at December 31, 2017 \$	As at December 31, 2016 \$
Long-term debt (Credit Facility)	115,066	56,235
Equity Shareholders	729,480	708,028
	844,546	764,263

The Corporation's capital risk management objectives are as follows:

- Safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders to maintain an optimal capital structure to enhance shareholder value in the long-term;
- Ensure sufficient capital in order to meet short-term business requirements and pursue the development of its mining projects and operations;
- Maintain an optimal capital structure and reduce the cost of capital; and
- Ensure sufficient capital for business development.

As a growing business, the Corporation requires extensive capital. The Corporation raises capital, as necessary, to meet its needs and take advantage of opportunities and, therefore, does not have a defined numeric target for its capital structure.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

19. Financial Instruments

Measurement Categories

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the profit or loss or in other comprehensive income. These categories are loans and receivables, available-for-sale assets and financial liabilities at amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories as at December 31, 2017 and December 31, 2016.

	As at December 31, 2017 \$	As at December 31, 2016 \$
Financial assets		
Loans and receivables		
Cash and cash equivalents	198,950	273,772
Restricted cash	23,237	5,689
Gold trade receivables	560	90
Advance receivable	3,760	3,847
Other receivables (excluding VAT)	1,018	1,163
Available-for-sale assets		
Investment in GoviEx	2,108	1,095
Other	148	—
	229,781	285,656
Financial liabilities		
Amortized cost		
Trade payables and other financial liabilities	68,755	38,295
Long-term debt	115,557	57,036
Finance Lease	23,711	—
	208,023	95,331

Financial Risk Factors

a) Market Risks

i. Fair Value

Current financial assets and liabilities are valued at their carrying amounts, which are reasonable estimates of their fair value due to their near-term maturities; this includes cash and cash equivalents, gold trade receivables, other receivables (excluding VAT) and trade payables and other financial liabilities. The fair value of the advance receivable was estimated by discounting the future cash flows which approximates its carrying value. The fair value of restricted cash approximates its carrying amount. Long-term debt was accounted for at amortized cost and its fair value approximates its carrying value. Finance lease is recognized at the lower of the fair value and the present value of minimum lease payments at inception of the lease. Its fair value approximates its carrying value.

The fair value hierarchy under which the Corporation's financial instruments are valued is as follows:

- Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 includes inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly or indirectly; and
- Level 3 includes inputs for the asset or liability that are not based on observable market data.

The Corporation's finance department is responsible for performing the valuation of financial instruments, including Level 3 fair values. The valuation process and results are reviewed and approved by management every quarter, in line with the Corporation's quarterly reporting dates. Valuation results are discussed with the Audit Committee as part of its quarterly review of the Corporation's consolidated financial statements. On the basis of its analysis of the nature, characteristics and risks of equity securities, the Corporation has determined that presenting them by type of investment is appropriate.

19. Financial Instruments (continued)

Financial Risk Factors (continued)

a) Market Risks (continued)

i. Fair Value (continued)

Advance receivable

The advance receivable is classified as a loan and receivable and it is measured at amortized cost using the effective interest rate method. As the information on fair value is disclosed for the advance receivable, it is classified as a Level 3 according to the Corporation's fair value hierarchy. The valuation technique used is the income approach (discounted future cash flows) with an effective interest rate of 7% over a seven-year period. Interest income is recognized in the consolidated statement of income as part of "finance income". The fair value as at December 31, 2017 was \$3,760,000 (December 31, 2016: \$3,847,000) and was not significantly different from its carrying amount.

Investment in GoviEx

The investment in GoviEx, a publicly traded mineral resources company focused on the exploration and development of uranium properties in Africa, is classified as available-for-sale assets. Its fair value is a recurring measurement.

On July 11, 2016, GoviEx transferred its listing from the Canadian Securities Exchange ("CSE") to the TSX Venture Exchange ("TSX-V") and concurrently, delisted from the CSE. On June 8, 2017, GoviEx's shares began to be traded on the OTCQB Venture Market in the United States.

Prior to the delisting from the CSE, the GoviEx investment was classified as a Level 3 financial instrument according to its fair value hierarchy. Subsequent to its transfer to the TSX-V, the investment in GoviEx was transferred from the Level 3 to the Level 1 in the fair value hierarchy during the year ended December 31, 2016. In accordance with the Corporation's policy and using the last closing price observed on the TSX-V, the Corporation estimates the fair value of this available-for-sale investment to be 2,108,000 as at December 31, 2017 (December 31, 2016: \$1,095,000).

There were no transfers between Level 1, Level 2 and Level 3 during the year ended December 31, 2017.

ii. Interest rate risk

Interest rate risk is the risk that the value of assets and liabilities will change when the related interest rates change.

The Corporation is exposed to interest rate risk primarily on its long-term debt and does not take any particular measures to protect itself against fluctuations in interest rates.

The long-term debt provides for an interest on the outstanding principal amount from the date of advance to the Corporation at a rate equal to LIBOR plus 4.75%. Related interest rates are based on market interest rates. A change in the interest rate for the long-term debt would have an impact on "Mineral property under development" assets as borrowing costs are capitalized during the construction phase.

With the exception of its long-term debt, the Corporation's current financial assets and financial liabilities are not significantly exposed to interest rate risk because either they are of a short-term nature or because they are non-interest bearing.

The Corporation's advance receivable are non-interest bearing and therefore bear no interest rate risk.

iii. Foreign Exchange Risk

The Corporation's operations in Burkina Faso are subject to currency fluctuations and such fluctuations may materially affect its financial position and results. Gold is currently sold in US dollars. The majority of the costs of the Corporation are also in non-US dollars. The appreciation of non-US dollar currencies against the US dollar can increase the cost of exploration, construction and production in US dollar terms. The Corporation does not use derivatives to mitigate its exposure to foreign currency risk.

The Corporation's consolidated statement of financial position contains balances of cash and cash equivalents, restricted cash, gold trade receivables and other receivables, advance receivable, trade payables and other financial liabilities payable in currencies other than its functional currency. Accordingly, the Corporation is exposed to foreign exchange risk.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

19. Financial Instruments (continued)

Financial Risk Factors (continued)

a) Market Risks (continued)

iii. Foreign Exchange Risk (continued)

The balances in currencies are as follows as at December 31, 2017 and 2016:

	2017		2016	
	CAD	EUR	CAD	EUR
Cash and cash equivalents.....	20,089	49,632	31,171	87,340
Restricted cash.....	1,078	6,056	1,254	4,403
Gold trade receivables and other receivables.....	21	572	69	683
Advance receivable.....	—	3,139	—	3,645
Trade payables and other financial liabilities.....	(1,861)	(34,238)	(3,690)	(19,842)
	19,327	25,161	28,804	76,229
US dollar equivalents.....	15,399	30,144	21,452	80,444

The FCFA currency is fixed against the Euro currency. The balance in Euro currency includes the balance in FCFA as the foreign exchange risk of both currencies is managed simultaneously.

Assuming that all other variables are constant, a 10% weakening of the Canadian dollar exchange rate would have generated a decrease of \$1,399,000 on net income and equity for the year ended December 31, 2017 (2016: \$1,950,000). A 10% strengthening of the Canadian dollar exchange rate would have generated an increase of \$1,710,000 on net income and equity for the year ended December 31, 2017 (2016: \$2,384,000). A weakening of 10% in the Euro exchange rate would have generated a decrease of \$2,740,000 on the net income and equity for the year ended December 31, 2017 (2016: \$7,313,000). A strengthening of 10% in the Euro exchange rate would have generated an increase of \$3,349,000 on the net income and equity for the year ended December 31, 2017 (2016: \$8,938,000).

iv. Equity Price Risk

The Corporation is exposed to equity price risk for its investments classified as available-for-sale financial asset. Equity price risk is the risk that the fair value of a financial instrument varies due to equity market changes. The Corporation's quoted equity investment in GoviEx is exposed to equity price risk since its fair value is determined through the last closing share price on the TSX-V. As at December 31, 2017, a variation of 10% of the quoted equity investment in GoviEx would result in an estimated effect in the consolidated statement of comprehensive income and in equity of \$211,000 (net of tax) for the year ended December 31, 2017.

b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Corporation to credit risk consist of cash and cash equivalents, restricted cash, gold trade receivables and other receivables and advance receivables. The Corporation offsets these risks by depositing its cash and cash equivalents, including restricted cash, with Canadian and international financial institutions with credit rating between AA- and B, and with banks in Africa, which have no credit rating. The Corporation only performs transactions with one counterparty for the sale of gold. The Corporation has receivables from the government in Burkina Faso and receivables from a sales agent. With regards to advances receivables and other receivables, a credit analysis is performed on the counterparties assuring the risk to the Corporation as being minimal.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

19. Financial Instruments (continued)

Financial Risk Factors (continued)

c) Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at December 31, 2017:

	Between 0 and 6 months	Between 6 and 12 months	Between 12 and 24 months	Between 24 and 60 months
	\$	\$	\$	\$
Trade payables and other financial liabilities	66,941	709	875	230
Long-term debt including interests.....	3,840	3,840	66,168	62,303
Finance Lease including accretion interests	3,107	3,107	6,214	15,233

The Corporation's growth is financed through a combination of cash on hand, cash flows from operations, the issuance of equity, long-term debt and finance lease obligation. One of management's primary goals is to maintain an optimal level of liquidity through the active management of assets and liabilities, as well as cash flows.

Surplus cash held over and above the balance required for working capital management and other expected needs are invested in interest bearing current accounts, bank deposits and money market investments. Liquidity risk is considered minimal because the Corporation has surplus cash. As at December 31, 2017, the Corporation held cash comprising cash on hand and demand deposits amounting to \$78,849,000 (2016: \$114,132,000); and cash equivalents that are composed of bank deposits and money market investments of \$120,101,000 (2016: \$159,640,000).

20. Mining Operation Expenses

The following table details mining operation expenses by nature:

	2017 \$	2016 \$
Operating and maintenance supplies and services	89,638	71,500
Fuel.....	45,988	41,324
Employee benefits expenses	29,246	28,490
Reagents	11,019	10,946
Inventory change	(7,697)	1,243
Less: Production expenses capitalized as stripping cost	(44,615)	(34,453)
Total Production costs.....	123,579	119,050
Government royalties.....	10,806	12,903
Mining Operation Expenses.....	134,385	131,953

21. General and Administrative

	2017 \$	2016 \$
Corporate expenses	11,474	11,110
Sites – Administrative	2,595	2,843
	14,069	13,953

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

22. Share-Based Compensation

The following table details the share unit plan liabilities:

	As at December 31, 2017 \$	As at December 31, 2016 \$
Current.....	6,404	6,635
Non-current.....	3,138	4,899
	9,542	11,534

The following table provides the break-down of the share-based compensation expense by type of share unit:

	2017 \$	2016 \$
Restricted Share Unit ("RSU") (b).....	2,880	5,485
Deferred Share Unit ("DSU") (c)	248	691
Performance Share Unit ("PSU") (d).....	98	119
	3,226	6,295

The following table breaks down the share-based compensation expense related to the change in the fair value of share price and outstanding units:

	2017 \$	2016 \$
Expense related to outstanding units	4,061	4,305
Expense (recovery) related to change in the fair value of the share price	(835)	1,990
	3,226	6,295

a) Options

The Corporation has two share option plans for its employees, directors, officers and consultants and those of its subsidiaries; the Share Option Plan (the "Original Plan") and the 2010 Share Option Plan (the "2010 Plan"). The Corporation's shareholders adopted the 2010 Plan at the 2010 Annual General and Special Meeting of Shareholders. The 2010 Plan is similar to the Original Plan but provides, among other things, for a 5-year option term instead of the 10-year option term provided under the Original Plan.

The option price is payable in full at the time the option is exercised. The options may be exercised during the option period determined by the Board of Directors, which may vary, but will not exceed ten years from the date of grant.

Since the adoption of the DSU Plan as defined in point c) of this note, no further option has been granted nor will be granted under the Original Plan and the 2010 Plan.

No new options were issued to directors of the Corporation during the year ended December 31, 2017 (2016: nil). For the year ended December 31, 2017, there is no share-based compensation expense recorded related to the share option plan (2016: nil).

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

22. Share-Based Compensation (continued)

a) Options (continued)

The following table details the options granted to employees, directors, officers and consultants under the plans:

(in thousands, except weighted average exercise price)	2017			2016		
	Number of options	Weighted average exercise price		Number of options	Weighted average exercise price	
	(in thousands)		\$	(in thousands)		\$
Balance – beginning of year	2,398	2.42	(C\$3.25)	4,952	2.43	(C\$3.37)
Expired	(105)	5.94	(C\$7.45)	(77)	7.34	(C\$9.85)
Cancelled.....	—	—	—	(50)	3.50	(C\$4.70)
Exercised.....	(142)	1.80	(C\$2.26)	(2,427)	2.49	(C\$3.34)
Balance – end of year.....	2,151	2.48	(C\$3.11)	2,398	2.42	(C\$3.25)
Options exercisable – end of year	2,151	2.48	(C\$3.11)	2,398	2.42	(C\$3.25)

The following table sets forth the range of exercise prices for the options under the plans in 2017:

(in thousands, except weighted average exercise price/option and average residual life span)	Options outstanding and exercisable			
	Options outstanding	Average residual life span	Weighted average exercise	
	(in thousands)	(in years)	\$ price/options	
Range of exercise prices				
\$1.08 (C\$1.35) to \$1.62 (C\$2.03).....	1,100	1.05	1.39	(C\$1.75)
\$2.51 (C\$3.15) to \$2.96 (C\$3.71).....	207	0.65	2.77	(C\$3.48)
\$3.74 (C\$4.70) to \$4.16 (C\$5.22).....	844	2.06	3.82	(C\$4.79)
	2,151	1.41	2.48	(C\$3.11)

b) Restricted Share Units

Under the Corporation's RSU plan, RSUs can be granted to employees, directors, officers and consultants as part of their long-term compensation package, entitling them to receive payout in cash if the vesting conditions are met. Pursuant to the RSU plan, the RSUs granted are scheduled for payout after three years provided that the applicable vesting conditions are met at the end of the performance cycle. The value of the payout is determined by multiplying the number of RSUs vested at the end of the performance cycle by the average closing price of the Corporation's shares in the last five trading days prior to the end of said performance cycle.

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

22. Share-Based Compensation (continued)

b) Restricted Share Units (continued)

The following table provides the activity for all RSUs for the years ended December 31, 2017 and 2016:

	Number of RSUs
Outstanding as of January 1, 2016	3,690,000
Granted under the 2016 plan	1,125,000
Vested and paid	(247,000)
Forfeited	(85,000)
Outstanding as of December 31, 2016	4,483,000
Outstanding as of January 1, 2017	4,483,000
Granted under the 2017 plan	968,000
Vested and paid	(1,678,000)
Forfeited	(31,000)
Outstanding as of December 31, 2017	3,742,000

A total of 1,696,146 RSUs vested as at December 31, 2017, which was settled for a cash consideration of \$4,738,000 in January 2018.

c) Deferred Share Units

The DSU Plan is a non-dilutive long-term incentive plan in which employees, including senior management, directors and any other person designated by the Corporation, can participate. DSUs are payable in cash. Pursuant to the DSU Plan, after the participant ceases to sit on the Board or be employed or retained by the Corporation, a redemption date is proposed by the participant within the terms of the DSU plan ("Redemption date"). The redemption value of each DSU held by the participant is determined by multiplying the number of DSUs credited to this participant by the average closing prices of the Corporation's common shares in the last five trading days prior to the Redemption date.

The following table provides the activity for all DSUs for the years ended December 31, 2017 and 2016:

	Number of DSUs
Outstanding as of January 1, 2016	283,247
Granted	172,753
Outstanding as of December 31, 2016	456,000
Outstanding as of January 1, 2017	456,000
Granted	140,476
Outstanding as of December 31, 2017	596,476

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

22. Share-Based Compensation (continued)

d) PSU

The PSUs are granted under the RSU plan. PSUs can be granted to employees, directors, officers and consultants as part of their long-term compensation package, entitling them to receive payout in cash if the vesting conditions are met. The PSUs granted are scheduled for payout after three years provided that the applicable vesting conditions are met at the end of the performance cycle. The performance criterion is based on the Corporation's share price in comparison to a customized index regrouping peer companies. The value of the payout is determined by multiplying the number of PSUs vested at the end of the performance cycle by the average closing price of the Corporation's shares in the last five trading days prior to the end of said performance cycle and adjusted by a performance payout multiplier between 0% and 150%.

	Number of PSUs
Outstanding as of January 1, 2016.....	—
Granted.....	238,784
Outstanding as of December 31, 2016.....	238,784
Outstanding as of January 1, 2017	238,784
Granted.....	215,543
Outstanding as of December 31, 2017.....	454,327

23. Finance Costs

	2017	2016
	\$	\$
Accretion expense	553	502
Other.....	756	1,436
	1,309	1,938

24. Non-Controlling Interests

	2017	2016
	\$	\$
Government of Burkina Faso - 10% in SEMAFO Burkina Faso S.A.	3,056	7,048
Government of Burkina Faso - 10% in SEMAFO Boungou S.A.....	471	—
	3,527	7,048

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

25. Earnings per Share

	2017 \$	2016 \$
(in thousands, except shares and per share)		
Net income for the year attributable to equity shareholders.....	20,036	34,219
Average weighted number of outstanding common shares – basic.....	324,894	315,290
Dilutive effect of options.....	572	925
Weighted average number of outstanding common shares – diluted	325,466	316,215
Earnings per share	0.06	0.11
Diluted earnings per share.....	0.06	0.11

26. Financial Commitments and Contingencies

Purchase Obligations

As at December 31, 2017, purchase commitments totalled \$44,470,000, of which \$42,417,000 related to the Boungou Mine.

Government Royalties

In Burkina Faso, all shipments at 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 at gold spot prices between \$1,000 and \$1,300 per ounce, and a 5% royalty rate is applied to all shipments at a gold spot price greater than \$1,300 per ounce.

For the year ended December 31, 2017, the Corporation was subject to royalty rates of 4% and 5% (2016: 4% and 5%), which were calculated using the retail market value of gold ounces sold at the time of shipment. For the year ended December 31, 2017, government royalties amounting to \$10,806,000 (2016: \$12,903,000) were paid to the Government of Burkina Faso.

Net Smelter Royalty ("NSR")

The Corporation is subject to an NSR of 1% on various exploration properties. The NSR comes into effect when the Corporation enters into commercial production.

Contingencies

On October 15, 2015, the Corporation received a water extraction tax invoice of \$4,099,000 (2,244,166,000 FCFA). The Corporation is exempt from this tax under its mining agreement for the Mana Mine pursuant to fiscal stability clauses. As a result, no provision was recorded in the consolidated financial statements as at December 31, 2017. The Corporation is vigorously defending its position with the Water Agency.

Minimum operating lease payments

In the normal course of business, the Corporation enters into contracts with a commitment to minimum operating lease payments. As at December 31, 2017, future minimum operating lease payments are break-down as follows:

	Less than one year \$	Between one year and five years \$	Over five years \$	Total \$
Office rental	341	1,176	461	1,978
Other operating lease contract	10,042	11,716	—	21,758
	10,383	12,892	461	23,736

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

27. Financial Information Included in the Consolidated Statements of Cash Flows

a) Changes in non-cash working capital items

	2017 \$	2016 \$
Trade and other receivables.....	(4,755)	1,695
Income tax receivable	(3,186)	1,634
Inventories	(13,607)	2,705
Other current assets.....	(1,581)	109
Trade payables and accrued liabilities	3,488	4,185
Share unit liabilities	(5,218)	(607)
Provisions	166	(2,758)
Withholding taxes.....	—	(5,827)
Income tax payable.....	(5,422)	5,422
	(30,115)	6,558

b) Supplemental information on non-cash items

	2017 \$	2016 \$
Depreciation of property, plant and equipment allocated to exploration and development costs	4,598	5,647
Depreciation of property, plant and equipment allocated to mineral properties under development.....	3,845	—
Net effect of depreciation of property, plant and equipment allocated to inventories.....	1,411	896
New asset retirement obligations allocated to property, plant and equipment.....	3,753	507
Variation in accounts payables related to property, plant and equipment.....	27,057	1,910
Amortization of capitalized financing fees	1,810	784

c) Supplemental information on acquisitions of property, plant and equipment

	2017 \$	2016 \$
Acquisitions of exploration and evaluation assets.....	(3,854)	(29,349)
Acquisitions of other property, plant and equipment	(197,492)	(61,541)
	(201,346)	(90,890)

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

28. Subsidiaries and Transactions with Non-Controlling Interests

Set out below is the Corporation's summarized financial information for its subsidiaries, SEMAFO Burkina Faso S.A. and SEMAFO Boungou S.A. in Burkina Faso, that have material non-controlling interests. The amounts disclosed for subsidiaries are based on those included in the consolidated financial statements before inter-company eliminations.

SEMAFO Burkina Faso S.A.

Summarized statement of financial position for SEMAFO Burkina Faso S.A. before inter-company eliminations

	As at December 31, 2017 \$	As at December 31, 2016 \$
Non-controlling interest percentage	10%	10%
Current assets	233,871	186,432
Current liabilities	44,725	44,482
	189,146	141,950
Non-current assets	274,041	293,338
Non-current liabilities	40,123	41,711
	233,918	251,627
Net assets	423,064	393,577

Summarized statement of income for SEMAFO Burkina Faso S.A. before inter-company eliminations

	2017 \$	2016 \$
Revenue	258,993	300,483
Net income and comprehensive income	30,564	70,478
Net income attributable to non-controlling interest	3,056	7,048
Dividends paid to non-controlling interest	—	10,359

The accumulated non-controlling interest in SEMAFO Burkina Faso S.A. was \$30,611,000 as at December 31, 2017 (2016: \$27,555,000).

Summarized cash flows for SEMAFO Burkina Faso S.A. before inter-company eliminations

	2017 \$	2016 \$
Cash flows from operating activities	85,426	155,108
Cash flows from financing activities	(80,160)	(110,670)
Cash flows from investing activities	(69,145)	(56,336)

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

28. Subsidiaries and Transactions with Non-Controlling Interests (continued)

SEMAFO Boungou S.A.

Summarized statement of financial position for SEMAFO Boungou S.A. before inter-company eliminations

	As at December 31, 2017 \$	As at December 31, 2016 \$
Non-controlling interest percentage	10%	10%
Current assets	22,379	—
Current liabilities		
Other current liabilities	34,092	2,013
Current inter-company liabilities	192,906	—
Total current liabilities	226,998	2,013
	(204,619)	(2,013)
Non-current assets	231,684	2,013
Non-current liabilities	22,351	—
	209,333	2,013
Net assets	4,714	0

Summarized statement of income for SEMAFO Boungou S.A. before inter-company eliminations

	2017 \$	2016 \$
Revenue	—	—
Net income and comprehensive income	4,714	—
Net income attributable to non-controlling interest	471	—
Dividends paid to non-controlling interest	—	—

The accumulated non-controlling interest in SEMAFO Boungou S.A. was \$471,000 as at December 31, 2017 (2016: nil).

Summarized cash flows for SEMAFO Boungou S.A. before inter-company eliminations

	2017 \$	2016 \$
Cash flows from operating activities	(777)	504
Cash flows from financing activities	131,545	1,508
Cash flows from investing activities	(113,669)	(2,013)

29. Related Party Transactions

Key management includes directors, executive officers and management team. The remuneration of key management personnel was as follows:

	2017 \$	2016 \$
Short-term employee benefits	2,988	3,084
Share-based compensation	2,229	4,289
	5,217	7,373

Notes to the Consolidated Financial Statements

(Expressed in US dollars except where otherwise indicated – amounts in tables are presented in thousands of US dollars)

29. Related Party Transactions (continued)

The Corporation has a termination and change of control benefits agreement with the President and Chief Executive Officer and with the Chief Financial Officer. Had any of these individuals been terminated on December 31, 2017, the President and Chief Executive Officer would have received approximately \$2,103,000 (2016: \$2,215,000) and the Chief Financial Officer approximately \$965,000 (2016: \$989,000).

30. Segmented Information

The Corporation is conducting exploration and production activities in Burkina Faso. The business segments presented reflect the management structure of the Corporation and the way in which the Corporation's chief operating decision maker reviews business performance. The Corporation evaluates the performance of its operating segments primarily based on segment operating income, as defined below.

	2017				
	Mana, Burkina Faso	Boungou, Burkina Faso	Other exploration	Corporate and other	Total
	\$	\$	\$	\$	\$
Revenue – Gold sales	258,993	—	—	—	258,993
Mining operating expenses	134,385	—	—	—	134,385
Depreciation of property, plant and equipment	94,357	—	—	365	94,722
General and administrative	2,595	—	—	11,474	14,069
Corporate social responsibility expenses	931	166	—	—	1,097
Share-based compensation	—	—	—	3,226	3,226
Operating income (loss)	26,725	(166)	—	(15,065)	11,494
Property, plant and equipment	302,831	367,382	31,580	1,548	703,341
Total assets	435,655	393,917	33,288	165,503	1,028,363

	2016				
	Mana, Burkina Faso	Boungou, Burkina Faso	Other exploration	Corporate and other	Total
	\$	\$	\$	\$	\$
Revenue – Gold sales	300,483	—	—	—	300,483
Mining operating expenses	131,953	—	—	—	131,953
Depreciation of property, plant and equipment	77,952	—	—	371	78,323
General and administrative	2,843	—	—	11,110	13,953
Corporate social responsibility expenses	960	—	—	—	960
Share-based compensation	—	—	—	6,295	6,295
Impairment of property, plant and equipment	—	—	8,913	—	8,913
Operating income (loss)	86,775	—	(8,913)	(17,776)	60,086
Property, plant and equipment	327,408	179,903	27,238	1,688	536,237
Total assets	488,397	185,123	28,310	193,446	895,276

The Corporation's revenue is derived from one major customer. The Corporation is not economically dependent on a limited number of customers for the sale of gold because gold can be sold through numerous commodity market traders worldwide.



Sustainable Development

ACHIEVEMENTS/

CELEBRATING TEN YEARS OF COMMUNITY DEVELOPMENT



2017 was an exciting year for SEMAFO as we prepare to mark the tenth anniversary of the Mana Mine and the establishment of SEMAFO Foundation. During this journey, the Mana Mine has produced more than 1.8 million ounces of gold, creating well-paid jobs, fostering growth and providing the government with much-needed revenue. None of this, however, would have been possible without the dedicated support of SEMAFO Foundation, whose outreach has spread to 134 towns and villages, positively impacting 1.1 million people, and improving livelihoods in rural communities in Burkina Faso.

The year 2017 was another very active year in which SEMAFO's concrete actions demonstrated the importance it attaches to being an exemplary community partner capable of contributing to the economic development of its host country.

2017 – Community Outreach

Through a combination of direct community dialogue and SEMAFO Foundation initiatives, SEMAFO fosters the social acceptability of its projects through community representatives and consultation committees. Our pro-active approach is highly effective as it allows us to maintain a continuous dialogue with the population surrounding our mines and hence, to take immediate measures if needed.

In the course of 2017, the Mana community team carried out a series of sustainable development initiatives complementary to SEMAFO Foundation activities that were designed to improve the living conditions of the near-mine population. These included commissioning of pipework to drain rainwater from a village area; installation of compost pits in villages in order to improve crop yield; spraying of roads to counter the effect of the Harmattan wind; supplying the local council with road signage; repair of local roads close to the mine; and funding for community events.

In addition to donations made to SEMAFO Foundation, the Boungou Mine community team upgraded local public infrastructure, trained the local population, supported local civic events and upgraded the housing and sanitary facilities of the resettled village (see next page). Specifically, a total of \$210,000 was invested into resurfacing two stretches comprising 115 kilometers of the RR28 regional road from Ougarou. In 2017, in partnership with the regional employment agency in the Est region, SEMAFO committed to providing \$125,000 to train up 115 young people from near-mine communities in 5 trades – car mechanics, bicycle mechanics, solar energy, metal joinery and building electrics. Of the \$125,000, \$20,000 has been contributed by our mining contractor AMS. Given the low levels of employment in the Est region, the courses will help young people who are unable to find employment at the Boungou Mine, to join the labour market by furthering their skills and learning a trade that could lead to self-employment. At year-end, financial support was provided for national events held locally including Independence Day festivities.

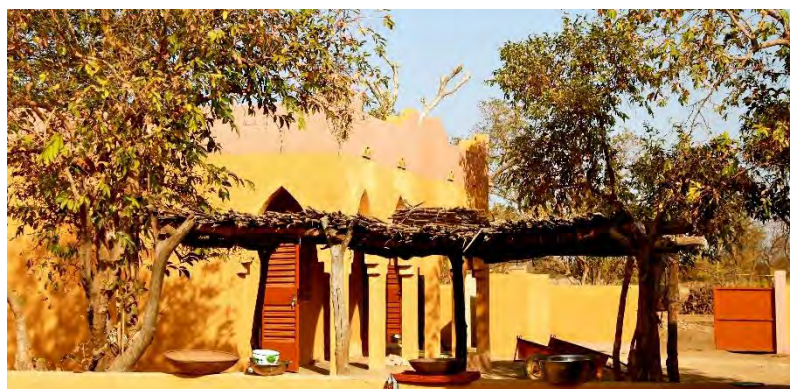
Relocation of Communities – a Priority

In the third quarter of 2017, two and a half years of community discussions, buy-in and follow-up culminated in the relocation of 900 Boungou residents to their newly built village.



From the outset, SEMAFO adopted a participative approach to discussions that greatly facilitated community ownership of the rehousing and compensation processes. During mobilization, regular public consultations encouraged open dialogue, identified the positive aspects of the area in addition to explaining the mining project and relocation plans. Additional engagement methods included sending a group of community representatives to Mana to observe the mine and witness first-hand SEMAFO's commitment to its relocated communities. The combination of public discussions and visits resulted in community consensus on the new village location, after which approval was sought and obtained from customary authorities. During the entire process, SEMAFO Foundation continued to improve living conditions and livelihoods, and built resident capacity through enhanced skills and confidence.

Construction of the new housing, which began at the end of March 2017, was completed at the end of September. Design of the housing was overseen by a Burkinabè architect whose team of supervisors were on site every day to ensure the quality of the buildings. Final uptake of the buildings was only made when no construction faults were detected. During the key handover ceremony, the village chiefs underlined the 170 relocated households' deep satisfaction with the greatly improved housing stock, which had been made from cement breeze blocks and fitted with ecological latrines. The new village also included community infrastructures such as five mosques, two churches, a church lot, water boreholes, a school and a livestock vaccination pen for total investment of \$8 million or CFA 5 billion.



SEMAFO Foundation: A Strong Community Partner

Through SEMAFO Foundation, community investment helps build sustainable partnerships between SEMAFO and neighbouring communities while reinforcing the latter's self-sufficiency. Inspired by the United Nations Sustainable Development Goals, SEMAFO Foundation pursues its mission to support communities by investing in development projects and by **training and empowering the population.**



Our contribution to SEMAFO Foundation totaled **\$1.1 million** in 2017, funding a wide variety of activities essential to improving the living conditions of communities. During the year, income-generating activities such as sesame, shea and beekeeping projects generated close to C\$0.7 million, positively **impacting 34,740 of the local population.**

Over the past eight years, SEMAFO Foundation has invested **C\$2.5 million in educational projects** impacting 173,000 people and increasing school capacity by 4,000 students. In addition to building educational infrastructures, SEMAFO Foundation continues to offer community development measures and support income-generating activities suggested by the communities.

SEMAFO Foundation Achievements in 2017

Boucle du Mouhoun Region

In 2017, half of SEMAFO Foundation's budget in the Mana area served to further the educational sector. Primary and secondary schools were fitted out with classrooms, desks and offices; a total of 13,000 school kits and 1,580 solar lamps were distributed; and sanitary conditions were enhanced by the construction of boreholes, latrines and hand-washing stations. Certain initiatives, such as the bicycle donations to needy and deserving students, the school kits and the financing of school canteens, are particularly appreciated by parents and teachers as they have a significant impact on students' lives and study conditions.

In addition to reinforcing the educational sector in 2017, SEMAFO Foundation also carried out the following in the Boucle du Mouhoun region:

- Constructed and renovated 13 classrooms
- Sunk seven water boreholes
- Built 46 latrines
- Provided support for autistic children and women living with obstetrical fistula
- Supported four agricultural revenue-generating projects
- Supplied and launched the chicken farming project in a second location
- Accompanied three women from the shea grouping on a study visit to Canada to meet with key partners and obtain training
- Provided training courses in masonry, motorcycle mechanics and French



Est Region

In 2017, many of SEMAFO Foundation's actions had the objective of facilitating the relocation of Boungou residents to their new village. To this end, it financed and fitted out ecological latrines for each of the households, in addition to training inhabitants in their use and upkeep. Moreover, to address displaced residents' concerns about water and schooling, the Foundation built a school with four classrooms at Boungou in 2017 and sunk water boreholes. To encourage school enrolment, for the first time, SEMAFO Foundation distributed school kits to pupils from three schools in the immediate Boungou area.

Revenue-generating Projects: 'Open Sesame' in the Est Region



In 2017, the sesame project was extended from **42 to 44** villages in the Boucle du Mouhoun region. During the year, 1,723 registered farmers **generated income of \$430,000** from an area under cultivation of 2,676 hectares.

In addition to being SEMAFO Foundation's longest-established livelihood project, the sesame project generates more income per participant than any other project. In the Boucle du Mouhoun region where it was implemented in 2010, the farmers have organized themselves in cooperative groups to defend their collective interests; participate in the Foundation's grain credit 'warrantage' project to store their products and obtain micro-credit; and receive training in production techniques and cooperative affairs.

Starting in 2016, SEMAFO Foundation began accompanying farmers from five villages neighbouring our Boungou Mine in a first sesame project. In the 2016-2017 year, the 250 participants generated \$31,000 in revenue. Mid-2017, a roadshow was held in additional villages in order to grow more interest in organic sesame production. As the year advanced, producers began complying with organic production traceability standards by initiating GPS positioning in their fields. By year-end 2017, SEMAFO Foundation had supported 125 organic sesame producers with seed donations and training in production and storage techniques.

In addition to the sesame project, the Foundation launched sewing center and chicken farming projects during the year. Both projects should enable participants to supply the Boungou Mine.



To learn more:

Mandate of SEMAFO's Environmental, Health & Safety and Sustainable Development Committee (Lawrence McBrearty, Terence F. Bowles, Gilles Masson and Tertius Zongo) in addition to SEMAFO's Social Responsibility Policy:

<http://www.semafo.com/English/corporate-responsibility/corporate-governance/default.aspx>

SEMAFO Foundation website:

<http://www.Fondationsemafo.org/>



*Note: All references to SEMAFO Foundation website are for your information only, and the information it contains does not form part of this document.

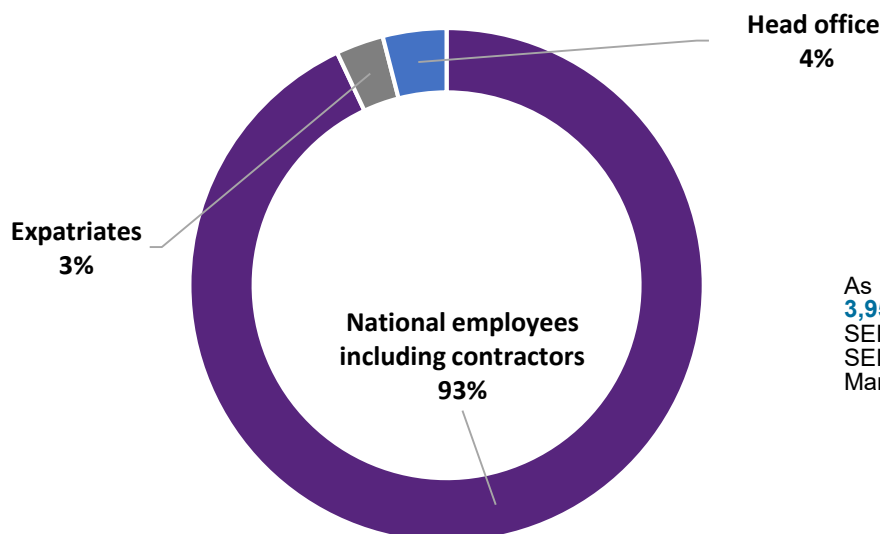
Proud of our Labour Practices

Achievement of our goals and objectives depends on the 1,034 employees employed by SEMAFO. Effective management of our human resources capital can accelerate our growth and expansion, lower operating costs, reduce site disruptions and secure mining permits. Our strategy with regard to our human resources includes:

- Select talented and dedicated employees;
- Train and develop our resources;
- Offer competitive wages and benefits;
- Offer stable progressive employment; and
- Train national employees for higher managerial levels

In November, we signed a three-year collective agreement with Boungou Mine employees.

Our Priority: Optimize our Local, In-Country Resources



As at December 31, 2017, **3,956** people worked at SEMAFO, including 1,034 SEMAFO employees at Mana and Boungou

Developing National Talent

Since its inception in 2012, the National Workforce Development Program has trained high-potential national employees at Mana into higher-level or trainer positions. In 2017, the two-year program enabled twelve graduates to assume roles with greater responsibilities and to replace some of the positions held by our expatriates. A new cohort began in 2017, which, by year-end, had already completed 10 of the 17 modules or 670 hours of the development program.

In addition to training promising national employees, we continued to enhance skills at both Mana and Boungou in 2017. A total of 10,000 hours of training- predominately technical, managerial and safety training- was dispensed through 64 programs across both mines. Of the 10,000 hours, 6,300 were delivered at the Mana Mine. One of the overarching aims of 2017 training was to sensitize team leaders, supervisors, management and expatriates to equipment and material damage.

In parallel, SEMAFO provided continued education courses, ranging from French language classes to improve employee literacy to intercultural communication courses for expatriates and Burkinabè managers. The combination of our local hiring practices and national development program has proven effective: Between 2013 and the end of 2017, the number of Burkinabè in managerial positions at Mana almost doubled to now account for approximately 34% of total managers. In addition, at year-end 2017, approximately 46% of managers at Boungou were Burkinabè.

Job Creation Following Commissioning of the Boungou Mine

As at December 31, 2017, 2,025 workers were employed by the Boungou Mine, 87% of whom are Burkinabè nationals and many of whom are residents of villages close to the deposit. Once the construction period is over, SEMAFO expects to fill most of the 800 Boungou positions with Burkinabè employees and to source a third of total employees from communities surrounding the mine.



members of the mechanic and electric maintenance teams.

To achieve this aim, SEMAFO has begun developing a 2018-2019 training program for national employees at Boungou involving 6,000 hours of training split over three categories: task-based, management and development of a national workforce, and health and safety induction training. Prior to the mine start-up, mine operators will follow a structured training program that involves task-based training. This training will be developed and delivered by a company specialized in ore processing and metallurgy. At year-end 2017, a specialized training course was being designed internally for

The training courses in five non-mining related trades, as detailed on page 2, represent our 2017-2018 contribution to upskilling the Boungou community labour workforce. Once commercial production is reached at Boungou in the third quarter of 2018, we will begin contributing to the fund for local development (Fonds minier de développement local, FMDL), the majority of which will be returned to communities surrounding the mine.

Promoting a Strong Workplace Health and Safety Culture

Our commitment to the health and safety of our employees, contractors and neighbours is an integral part of our operations. We strive to prevent accidents and achieve a goal of zero work-related incidents. Our continued focus on safety on and around the sites and the implementation of health and safety training programs drive our health and safety performance. Our prevention and health programs are regularly validated by primary health and safety personnel and by senior management. In 2017, as part of our continuous improvement system, we revised both programs to include:

- Quarterly meetings of members of the health and safety work committee
- Compilation of a risk analysis pocket note book
- Inspection of all fire extinguishers by an external firm to ensure their compliance



2017 Highlights - Mana

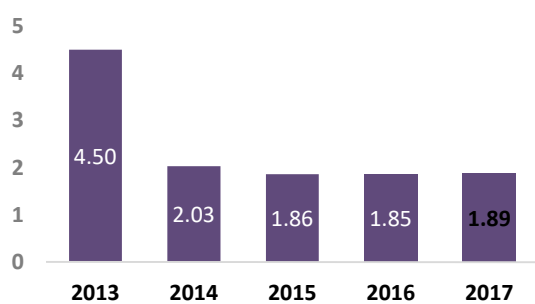
- 160 planned joint inspections
- 1,420 daily inspections carried out by preventionists
- 980 supervisions of tasks and risk analyses
- 1,280 employees trained on health and safety topics by preventionists
- A total of 708 meetings hosted on monthly topics
- 1,253 induction meetings for subcontractors and employees
- Workplace safety personnel were trained on breathing apparatus and on work safety by external firefighters
- Regular medical check-ups for all workers
- Health team trained on SNIS (national sanitary information system)
- Health team trained on 'thick smear' tests (diagnosis of malaria by microscopy)
- Tests on blood-lead levels of laboratory employees
- Awareness campaign carried out across all departments of the mine in December by the workers' AIDS committee

In 2017, our health and safety performance at Mana remained constant at 1.89 injuries per 200,000 hours worked. The number of lost work days increased from 35 to 227 due to a single accident that led to an extended period of absence. Our results at Mana are benchmarked against the industry average generated by the joint health and safety association for the mining sector in Quebec.

Five-year Health and Safety Score Card

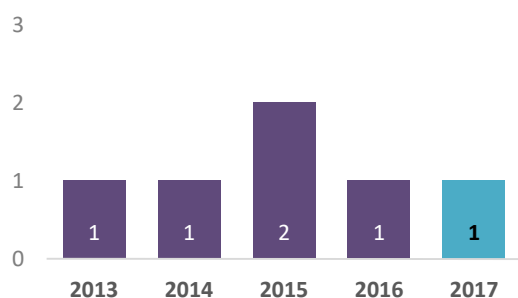
Injury Frequency Rate - Mana ⁽¹⁾

⁽¹⁾ Per 200,000 hours worked



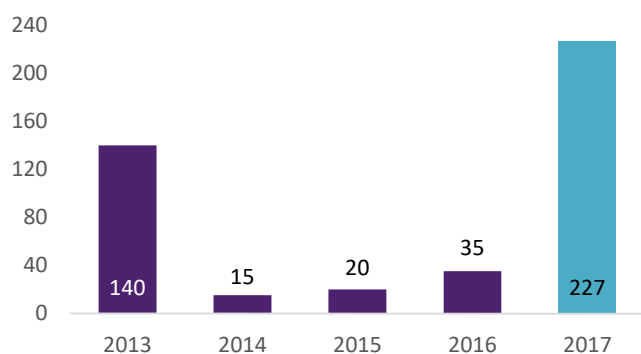
- ▲ In 2017, Boungou Mine achieved a work injury frequency rate of **0.54, an exceptional result** relative to our 5.0 target.
- ▲ Our target of 5.0 is the average injury frequency rate sustained during the construction of three mining projects in Burkina Faso.

Accidents with Lost Time - Mana



- ▲ As at December 31, 2017, we had worked **341 days** at Mana without lost-time accidents.
- ▲ At Boungou, at year-end 2017, a total of **3.7 million man-hours** had been worked without lost-time injury.
- ▲ In 2017, **no** accidents with lost time were recorded at Boungou.

Lost Work Days - Mana



- ▲ The 2017 increase in lost work days at Mana relative to the previous year is due to the severity of the 2017 accident.
- ▲ In 2017, **no** lost work days were recorded at Boungou.

The Environment, an Integral Part of our Management Process

Compliance

We conduct regular environment audits to ascertain our level of compliance with our environmental system and environmental policy. In 2017, the Mana Mine hosted three inspections from Burkinabè authorities: an unannounced environmental inspection by BUNEE, the Ministry of Environment; an inspection of listed facilities for protection of the environment by BUMIGEB, the Ministry of Mines and Energy; and a follow-up visit by Ministry of Environment on the environmental and social plan management. The ensuing recommendations, all of a minor nature, are being implemented on both a short-term and medium-term basis.



Water Management

SEMAFO is committed to using water responsibly. By educating employees to avoid water waste, regularly monitoring our consumption and using innovative water treatment processes, we encourage prudent use and achieve the highest possible recycling rate while maintaining the lowest possible consumption. Water for the Mana Mine processing plant is collected from a network of water ponds, from the tailings pond and accumulated behind a dam constructed to collect seasonal runoff water, usually sourced from a mixture of recycled and surface water accumulated in reservoirs during the rainy season.

Between the years 2012 to 2017, the plant sourced an average of 43% to 55% (53% in 2017) of its water needed to process the ore from the tailings pond. Recycling rates increase significantly during the peak rainy season months of May to October. For the second consecutive year, no additional water was pumped from the Mouhoun river to the water reservoir.

Monitoring our Tailings Ponds

Tailings produced by the processing plant are pumped to the tailings storage facility. The walls of the tailings surface facility are regularly lifted in order to increase the overall storage capacity. In early 2017, elevation of the east and west cell walls was carried out using the upstream construction method with the walls of both extended to 380 meters. We also perform daily analyses of mine tailings deposited in the sites that will be crucial during the rehabilitation phase. An independent audit of the Mana tailings in 2017 came to the following conclusions:

- The tailings dams are stable and elevation of their walls was carried out in accordance to industry standards
- Successful management of the tailings facility is maintained by operating two alternating cells that optimize consolidation of the tailings under their own weight and by evaporation
- The water dams are stable



Site Rehabilitation

Financial resources are allocated annually for the implementation of our environmental rehabilitation program. The plan is updated annually and includes objectives and activities that allow for gradual restoration, which will minimize the impact of an eventual closure. The total rehabilitation costs expected for the Mana Mine and the Boungou Mine were estimated at \$14.7 million and at \$21.6 million, respectively, for the total life of the mine.



Climate Change

In partnership with the Mouhoun water committee, our environmental team mobilized rural communities in Mouhoun in the fight against desertification by planting a total of 52,000 shrubs on the banks of the river Mouhoun. In addition to procuring the plants locally, the regional vegetation was planted with the assistance of locally hired day workers. As part of the environmental and social management plan, a memorandum of understanding was signed with the environmental department's technical team to measure the rate of success and green-up for the trees planted.



In 2017, we recorded a 12% year-over-year increase in fuel consumption at the plant compared to 2016. The increase was mainly attributable to use of larger trucking equipment at depth and to an increase in the energy plant consumption. In 2017, Mana's energy central consumed a total of 67,561 MW compared to 62,305 MW in 2016 when the secondary ball mill, which consumes about 20% less energy, was used for 20% of ore processing.

Air Quality Monitoring Program

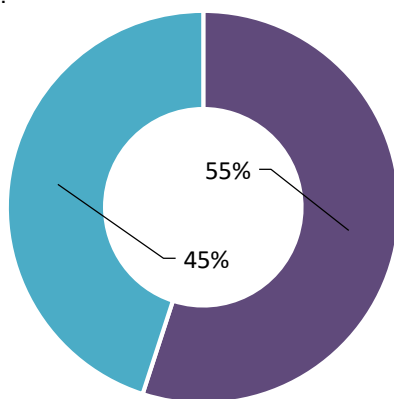
In 2015, we mandated an external agency to provide the sampling, analysis, equipment and certification of air quality and airborne emissions on the Mana plant for a three-year period. In the 2016/2017 year, samplings of gases (ozone (O₃), sulfur dioxide (SO₂), and nitrogen dioxide (NO₂)) in the ambient air were conducted on 10 different sites surrounding the Mana Mine.

After analysis of the results, the agency concluded that the sites sampled tracked well below both Burkina Faso and World Health Organisation (WHO) guidelines.



SEMAFO, Partner of Economic Development in Burkina Faso

Where possible, we advocate purchasing from local and regional suppliers in Burkina Faso. Approximately 55% (\$180 million) of our total purchases in 2017 (\$316.5 million) was made locally, up from the 45% of local purchasing recorded last year. Last year's local procurement percentage was negatively impacted by deposits made for equipment and infrastructure required for construction of the Boungou Mine.



Procurement in 2017

- Burkinabè suppliers
- International suppliers

Economic Value Generated for Burkina Faso and Canada

The Extractive Sector Transparency Measures Act (ESTMA) was enacted on December 16, 2014, and brought into force on June 1, 2015. The Act delivers on Canada's international commitments to contribute to global efforts to increase transparency and deter corruption in the extractive sector by requiring extractive entities active in Canada to publicly disclose, on an annual basis, specific payments made to all governments in Canada and abroad. By May 31, 2018, SEMAFO will have filed the ESTMA report for the Canadian government on the following link: <http://www.nrcan.gc.ca/mining-materials/estma/18198>.

*Note: All references to this website are for your information only and the information it contains is not part of this document. Additional financial information on the Mana Mine may be found in note 30, Segmented Information in the Consolidated Financial Statements, December 31, 2017.



Shea nuts

CORPORATE OFFICE CANADA

SEMAFO INC.

100 Alexis-Nihon Blvd., 7th Floor

Saint-Laurent, Quebec

H4M 2P3

t: 514 744-4408

t: 1 888 744-4408 f 514 744-2291

ir@semafo.com

www.semafo.com

AUDITORS

PRICEWATERHOUSECOOPERS LLP

1250 René-Lévesque Blvd. West, Suite 2500

Montréal, Québec

H3B 4Y1

TRANSFER AGENT AND REGISTRAR

COMPUTERSHARE TRUST COMPANY OF
CANADA

1500 Robert-Bourassa Blvd.

Suite 700

Montréal, Québec

H3A 3S8

t: 514 982-7555

t 1 800 564-6253

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders will be
held at 10:00 (EDT) on Thursday, May 10, 2018
at Club Saint-James – Salon Midway

1145 Union Avenue

Montréal, Québec

H3B 3C2

STOCK EXCHANGE LISTINGS

THE TORONTO STOCK EXCHANGE

THE NASDAQ OMX STOCKHOLM

Symbol: SMF

CUSIP: 816922

ISIN: CA8169221089

ANNUAL REPORT

For investor inquiries, including additional copies of this
report in French or English, please contact Investor

Relations at

SEMAFO Inc.

t: 514 744-4408

t: 1 888 744-4408 f 514 744-2291

ir@semafo.com

www.semafo.com

CORPORATE INFORMATION

BOARD OF DIRECTORS

JOHN LeBOUTILLIER, ² CM

Chair of the Board

BENOIT DESORMEAUX, CPA, CA

TERENCE F. BOWLES, ENG., MBA, ICD.D ^{1,3}

GILLES MASSON, CPA, CA ^{1*,3}

LAWRENCE McBREARTY, ^{2,3*}

TERTIUS ZONGO, ^{2,3}

FLORE KONAN, ¹

¹ Member of the Audit Committee

² Member of the Human Resources and Corporate
Governance Committee

³ Member of the Environment, Health and Safety and
Sustainable Development Committee

* Committee Chair

SENIOR MANAGEMENT

BENOIT DESORMEAUX, CPA, CA

President and Chief Executive Officer

MICHEL CREVIER, PGeo, MScA

Vice-President, Exploration and Mine Geology
and Qualified Person

SYLVAIN DUCHESNE, Eng.

Vice-President, Construction and Engineering

JOHN JENTZ, CPA, CA, MBA

Vice-President, Corporate Development & Investor Relations

ALAIN MÉLANSON, CHRP

Vice-President, Human Resources

MARTIN MILETTE, CPA, CA

Chief Financial Officer

PATRICK MORYOUSSEF, Eng.

Vice-President, Mining Operations

ERIC PAUL-HUS, LL.L

Vice-President, Law, Chief Compliance Officer and Corporate
Secretary





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HUMAN ADVOCACY

SEMAFO Inc.
100 Alexis-Nihon Blvd.
7th Floor
Saint-Laurent, Québec
H4M 2P3, Canada

www.semafo.com