MOVING FORWARD

2012
ANNUAL REPORT

OUR PROFILE

SEMAFO is a Canadian-based mining company with gold production and exploration activities in West Africa. The Corporation currently operates three gold mines: the Mana Mine in Burkina Faso, the Samira Hill Mine in Niger and the Kiniero Mine in Guinea. SEMAFO is committed to evolve in a conscientious manner to become a major player in its geographical area of interest.

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

VISION

Build an ethical, reputable, world-class gold company through a combination of exploration, development and acquisitions.

CORPORATE MISSION

Establish enduring relationships with the countries in which we operate and through our experience, expertise and financial acumen, partner to responsibly develop natural resources.

HUMANITARIAN MISSION

Make sustainable contributions to improve the quality of life and livelihoods of the communities in which we operate through sustainable social, health, education and environmental policies and programs.

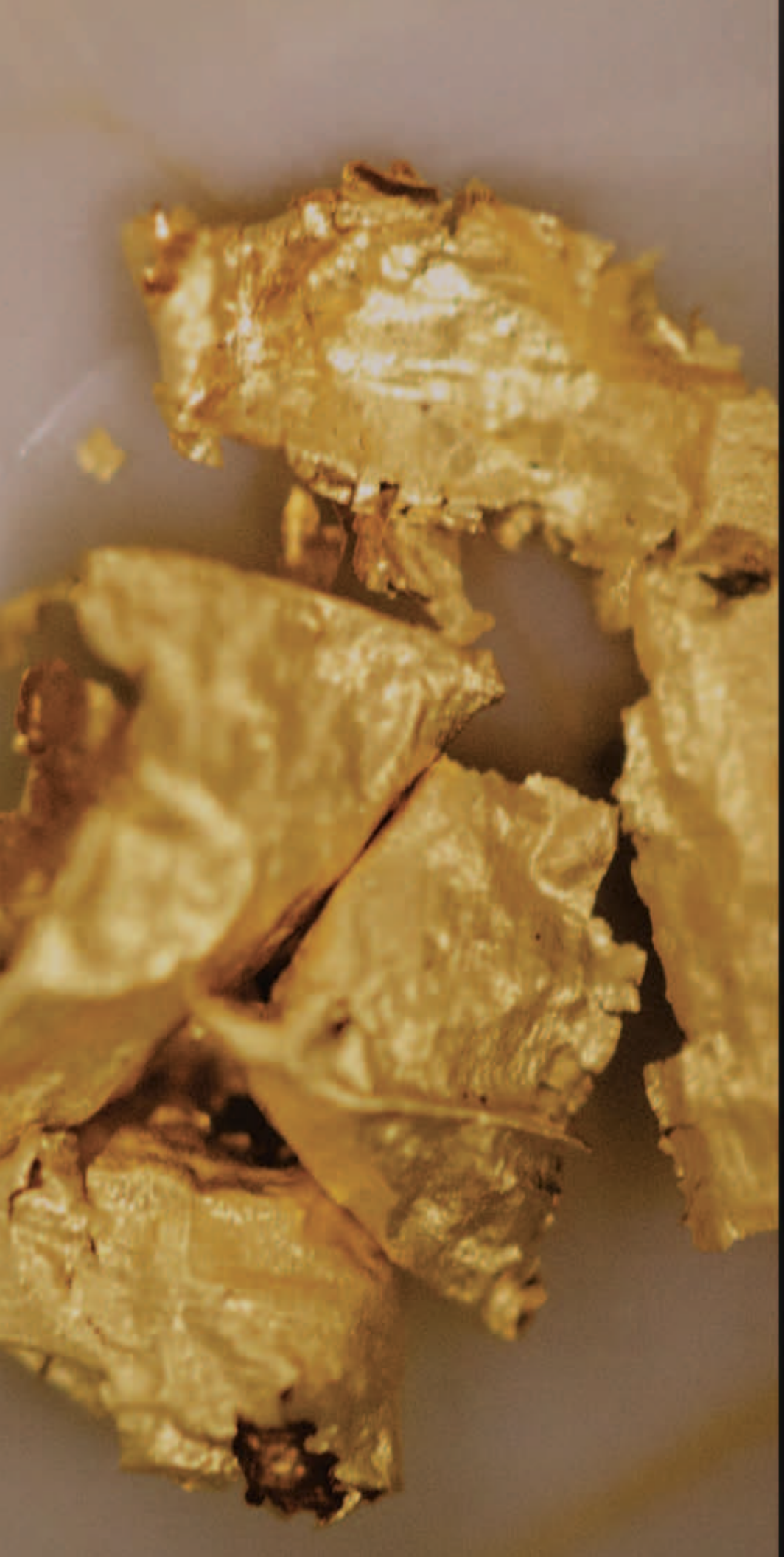
VALUES

Respect and Integrity: It is the foundation of everything we do — through accountability, responsibility, honesty, transparency, environmental and employee safety and protection.

Excellence: We relentlessly pursue excellence in everything we do — through quality, effort, perseverance, continual improvement, honour, entrepreneurship, and leadership.

Know-How: We support individual and collective achievement as it directly impacts the organization — through leadership and employee performance, integration, management, evaluation, promotion, training, development and succession.

Teamwork: We believe in the power of people working together to attain common goals.



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QUARTZ VEIN IN GRANODIORITE
HOLE WDC594
SIOU SECTOR

HOW WE PERFORMED

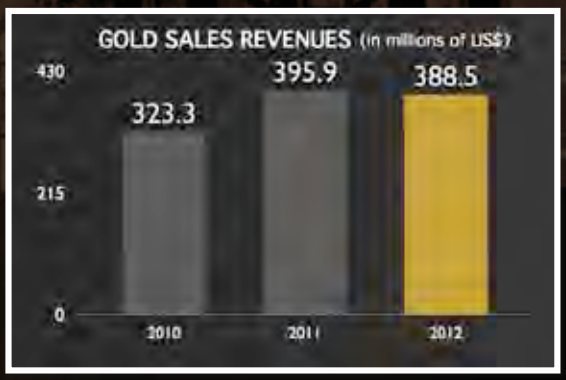
2012 OBJECTIVES	2012 ACHIEVEMENTS
MAXIMIZE VALUE	
Continue exploration programs directed at growing reserves and resources with an initial global exploration budget of $45 million, of which $36 million is allocated to Mana	• Discovered the new Siou Sector with one million ounces of initial in-pit inferred resources at an average 4.62 g/t Au and a 95% recovery rate • Updated Mana reserve and resource estimate as at December 31, 2012, net of mining depletion: ▪ 1.9 million ounces of proven and probable reserves – 25.1 million tonnes at an average grade of 2.31 g/t Au ▪ 3.0 million ounces measured and indicated resources – 48.6 million tonnes at an average grade of 1.93 g/t Au ▪ 1.9 million ounces of inferred resources – 18.3 million tonnes at an average grade of 3.18 g/t Au • Identified six important mineralized trends on the Mana property, including the 30-kilometer Kokoi Trend, host to the high-grade Siou Sector • Adopted overall improved economic super-pit mining scenario at Wona-Kona • Built and commissioned an on-site exploration laboratory and prep facility at Mana to accelerate turn-around time

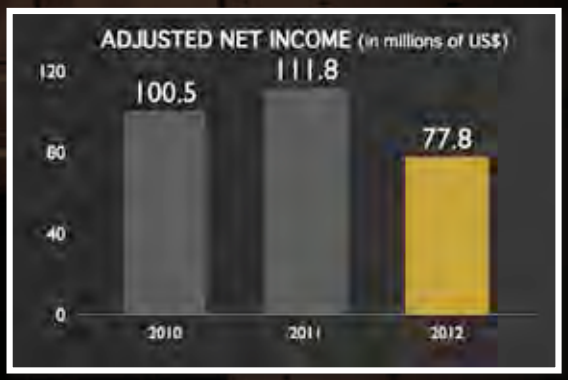
2012 OBJECTIVES	2012 ACHIEVEMENTS
DISCIPLINED GROWTH / RESPONSIBLE MINING	
Achieve production of between 235,000 and 260,000 ounces of gold at a cash operating cost of between $700 and $750 per ounce	• Gold production of 236,100 ounces • Cash operating cost of $704 per ounce
Increase Mana plant capacity to attain throughput of up to 8,000 tonnes per day in blended ore	• Completed Phase IV Plant expansion at Mana • Achieved best ever annual throughput of 2.7 million tonnes at the Mana plant, an increase of 12% year over year • Processed an average of 8,500 tonnes per day at Mana in the fourth quarter • Completed 60-kilometer water pipeline to accommodate Mana processing plant at a cost of $5.8 million less than the originally budgeted $30.2 million
Attract and retain best mining talent	• Signed three-year labour agreement at Mana (early 2013) • Third Annual Employee Recognition Program
Continue human resources initiatives in the areas of health and safety, and employee training and development	• Delivered more than 11,200 hours of technical training and leadership development programs • No lost-time injuries at Mana for a second consecutive year • Expanded work safety prevention program
Manage effectively to minimize our environmental footprint	• Published SEMAFO's third annual sustainability report in keeping with Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines – Application Level B
Continue corporate philanthropy program, contributing up to 2% of net income to *Fondation SEMAFO*	• Contributed $2 million to Fondation SEMAFO • Continued informative "Together for a Better Society" national radio campaign in Burkina Faso.
Increase sustainable development programs in host countries	• Maintained support of sustainable development initiatives in our host countries, including sesame production and Shea manufacturing
	• Signatory of the United National Global Compact
	• Recipient of the *Communitas Award* for Corporate Social Responsibility

2012 – THE YEAR IN REVIEW

- Gold production of 236,100 ounces compared to 250,100 ounces in 2011
- Gold sales of $388.5 million, a 2% decrease compared to 2011
- Operating income of $34.6 million compared to $154.2 million in 2011
- Net loss attributable to equity shareholders of $6.6 million or $(0.02) per share compared to net income attributable to equity shareholders of $111.8 million or $0.41 per share in 2011
- Cash flow from operating activities[1] of $155.4 million or $0.57 per share
- Discovery of the high-grade Siou Sector at Mana, with one million ounces of initial in-pit inferred resources at an average grade of 4.62 g/t Au
- Decision to move from an underground mining project to an improved overall economic super pit scenario resulted in a non-recurring loss of $17.0 million
- Completed 60-kilometer water pipeline to accommodate Mana processing plant at a cost of $5.8 million less than the originally budgeted $30.2 million
- Record throughput at Mana following the commissioning of Phase IV of the plant expansion
- Non-cash impairment charge of $60.0 million on the Samira Hill Mine
- Sale of current investment resulted in a non-recurring loss of $24.3 million
- Declaration of C$0.04 per share dividends to equity shareholders
- SEMAFO's Board of Directors appointed Benoit Desormeaux, formerly Executive Vice-President and Chief Operating Officer to the position of President and Chief Executive Officer of the Corporation

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





2013 STRATEGIC PRIORITIES

WHAT WE PLAN TO DO	HOW WE PLAN TO DO IT
Maximize organic growth at our flagship Mana property	• Through disciplined exploration • With an initial exploration budget of $20 million for Mana • By focusing exploration: ▪ On expanding the Siou Sector ▪ On adding Siou to reserves in 2013 ▪ Within a 20-kilometer radius of the processing plant ▪ On potential new targets along the 30-kilometer Kokoi Trend, host to the Siou Sector • By initiating the permitting process for Siou
Develop and expand our project pipeline/portfolio	• Through the ongoing exploration of high potential targets throughout the Mana property • Through the ongoing assessment of accretive acquisition opportunities
Optimize and improve efficiencies throughout the organization	• By focusing on quality ounces • Through rigorous cost management • By conducting internal reviews to improve efficiency • By reviewing strategic alternatives for the Samira Hill and Kiniero assets
Deliver a solid operational performance	• By achieving production guidance of between 215,000 and 240,000 ounces of gold • By achieving an overall average total cash cost of between $855 and $905 per ounce
Attract and retain the best mining talent	• Through ongoing training and development, internship programs and employee-led work programs • By developing local talent • Through the nationalization of jobs • By promoting an environment of mutual respect, diverse values and personal growth
Maintain safe and reliable operations	• Through prudent environmental stewardship • By continuously evolving our health and safety initiatives
Propagate SEMAFO's Savoir-faire in host countries	• By continuing to foster good relationships with local communities, governments and non-governmental organizations • By realizing and continuing to foster sustainable development initiatives • Through the continued support of *Fondation SEMAFO*

MESSAGE TO SHAREHOLDERS

For SEMAFO, 2012 was a year of transition on many levels. Although disappointing in terms of shareholder value, it nevertheless gave rise to numerous positive aspects with regard to our core business, from both strategic and operational perspectives. We achieved production and cost guidance for a fifth consecutive year. Our production totalled 236,100 gold ounces, just slightly below our 2011 results, while our annual revenues from gold sales posted only a 2% decrease from 2011 to stand at $388.5 million.

A comprehensive strategic review of the Corporation conducted during the latter part of the year facilitated the establishment of a realistic plan to move forward. We validated our top ensuing long-standing priority: to create value by generating future cash flow, while maintaining our solid operational performance. As the world economy continues to change shape, we will maintain our focus on quality ounces as part of our strategy and ongoing efforts to reduce costs and optimize cash flow.

During the year executive management made several difficult choices, including incurring a non-cash impairment of $60 million for Samira Hill in the fourth quarter of 2012, which related to the reassessment of future cash flows to be generated by the mine following the review of technical and economical parameters.

Our strategy is to maximize organic growth at our flagship Mana property through the disciplined exploration and development of our core asset. We also intend to maintain our efforts to optimize and improve efficiencies throughout our operations as we continue to seek opportunities to develop our project portfolio. Attracting, retaining and motivating the best mining talent are also priorities for us, as is our commitment to continue delivering a solid operational performance.

An important event during the year was the conversion of the Mana underground project to a super-pit. This decision, although it led to a $17 million write-off, was purely an economic decision based on the best return on investment as capital expenditures are spread out over the life of the mine.

The highlight of the year from our Corporation's standpoint was the discovery of the new high-grade Siou Sector at Mana. This vastly prospective area located approximately 15 kilometers east of our processing plant holds one million ounces of initial in-pit inferred resources at an average 4.62 g/t Au and a gold recovery rate of over 95%. Based on results to date, the Siou Sector where ongoing exploration work is being carried out has already become SEMAFO's most important find ever.

As gold finds become increasingly elusive, we were proud in 2012 to reaffirm the strength of our Mana operation and its potential for the future with the discovery of the new Siou Sector. Since then, we have expanded the area to incorporate six sub-zones, included one million ounces of inferred in-pit resources in our 2012 resource estimate, and plan to convert to reserves in the third quarter of 2013.

As at December 31, 2012, mineral reserves at Mana totalled 1.9 million gold ounces. Mana's total measured and indicated mineral resources increased to 3.0 million ounces at an average grade of 1.93 g/t Au and inferred mineral resources stand at 1.9 million ounces at an average grade of 3.18 g/t Au. The overall slight decrease in Mana's reserves and resources is the result of the removal of refractory sulphides from the south sector from our December 31, 2012 estimate due to the recovery challenges demonstrated in preliminary standard carbon in leach test results. SEMAFO's mineral reserves estimate is also net of mining depletion.

A significant event for SEMAFO took place in August when founder Benoit La Salle stepped down after over seventeen years at the helm of the Corporation, and I was appointed to the position of President and Chief Executive Officer. I respectfully moved into the role with a full appreciation of the fact that I am accompanied on this journey by a team of seasoned professionals that is second to none.

In the past year, SEMAFO shares fell prey to an extremely volatile financial market and increasingly apprehensive investors. But although our stock price decreased during the year, we believe that the Corporation's fundamentals and potential for creating shareholder value are as strong as ever.

SEMAFO is financially sound, has a solid cash position, is debt-free and completely unhedged. Since November 2011, our Corporation has paid out three dividends. We continue to strive for excellence in health and safety and lead the way in corporate responsibility. Our dedicated team continues to pull together in the pursuit of excellence and an overall commitment to simply doing more. We are determined to optimize operations at all levels, which includes initiatives such as development, realization and printing this annual report in house and fostering the distribution of electronic versions of the document to curb production and printing costs as well as to help save the environment. We are actively performing internal reviews in an effort to improve efficiency and contain costs.

I joined SEMAFO in 1997 and am well aware of the considerable potential of this organization, in particular of our Mana property. Truth be told, SEMAFO has built a reputation that is sometimes regretfully overlooked. For five years now, we have achieved our cash cost objective and met or exceeded our production guidance.

During the year, our Mana Mine entered its fifth year of operations. Since its commissioning in 2008, this remarkable property has produced over three quarters of a million ounces of gold, and holds the promise of millions more ounces moving forward. In 2013, an initial exploration budget of $20 million has been established for Mana, 85% of which will be devoted to activities that will be carried out on the land within a 20-kilometer radius of the processing plant.

We are optimistic for 2013. We have established a clear strategy to identify new ounces, expand reserves and resources, and build future cash flow. The task at hand is to create value and, moving forward, we are confident that we have the assets, the talent and the ability to do just that.

In closing, I would like to take this opportunity to thank all of our stakeholders for their ongoing commitment. I would like to express my sincere gratitude to our dedicated employees for their sustained efforts, as well as to the communities and other stakeholders in our host countries for their continued support and conviction in our abilities.

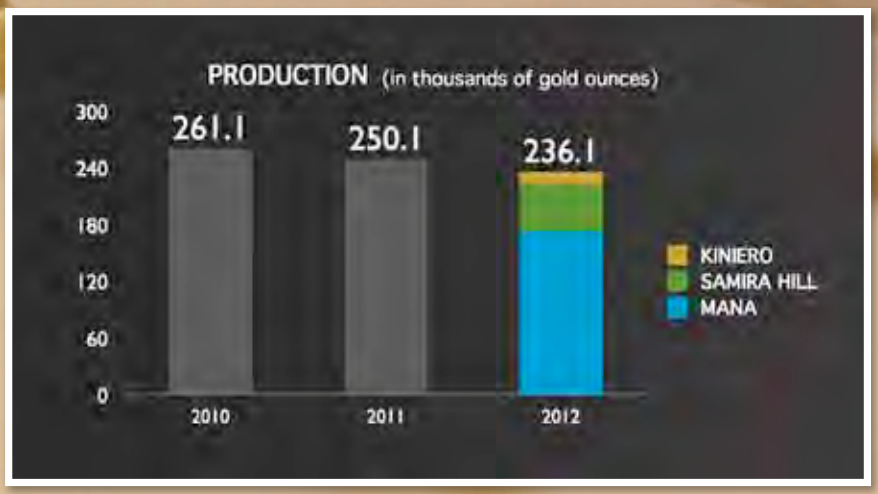
Benoit Desormeaux, CPA, CA
President and Chief Executive Officer

March 21, 2013

In 2012, SEMAFO founder Benoit La Salle stepped down after more than 17 years at the helm of the Corporation and has decided not to stand for re-election to SEMAFO's Board of Directors.

Benoit La Salle's perseverance, leadership and expertise have contributed to the establishment of a solid foundation on which SEMAFO will continue to build, moving forward. The Corporation wishes to thank Mr. La Salle for his unique perspectives, invaluable contributions and enduring commitment throughout all these years.

Several years ago, we initiated an employee recognition program aimed at recognizing employee achievement in connection with our corporate values: respect and integrity, excellence, know-how and teamwork. In 2012 and in honor of SEMAFO's founder and instigator of our deep-seeded values, the program was fittingly renamed the Benoit La Salle Recognition Program. Appropriately, Mr. La Salle's legacy will endure within the Corporation that he so fervently created so many years ago.


PRODUCTION (in thousands of gold ounces)
300
240
180
120
60
0
261.1
250.1
236.1
2010
2011
2012
KINIERO
SAMIRA HILL
MANA

OUR ASSETS – KEY TO VALUE CREATION MOVING FORWARD

We are conscious that as a gold producer, tomorrow's success rests on effective exploration and discovery today. We are also fully aware that the key to unlocking SEMAFO's full potential and creating value is to focus on quality ounces and organic growth at our core asset, Mana.

MANA

Our Mana property is located approximately 200 kilometers west of Ouagadougou, the capital city of Burkina Faso. It is host to our flagship Mana Mine, an open-pit mining operation inaugurated in mid-2008. Permitted property at Mana currently totals 2,119 square kilometers of land over the resource-rich Houndé belt.

EXPLORATION

In 2012, we invested approximately $40 million in exploration at Mana. Our program included over 32,300 meters of core, 252,800 meters of reverse-circulation ("RC") and air core ("AC"), and 86,000 meters of auger drilling, with a good portion of activities devoted to investigating yet-to-be-tested auger geochemical anomalies identified in 2010 and 2011.

As at December 31, 2012, one million ounces from the new Siou Sector were added to SEMAFO's inferred mineral resources for a total of 1.9 million ounces at an average grade of 3.18 g/t Au. Proven and probable mineral reserves totalled 1.9 million ounces at an average grade of 2.31 g/t Au. Mana's total measured and indicated mineral resources increased to 3.0 million ounces at an average grade of 1.93 g/t Au. Our 2012 reserve and resource estimate is net of mining depletion. Additionally, for economic reasons the majority of the refractory sulphides from the south sector have been removed from our mineral resources.

In a world where new gold finds are increasingly elusive, we enjoyed several noteworthy exploration accomplishments. The highlight of 2012 without a doubt is the new high-grade Siou Sector, SEMAFO's most important find to date. The Siou Sector was discovered last August with follow-up RC drilling on an auger geochemical anomaly and is located approximately 15 kilometers east of the Mana processing plant. To date, the Siou Sector boasts one million gold ounces at an average grade of 4.6 g/t Au.

Metallurgic test work performed on samples from the Siou Sector revealed gold recovery rates of over 95%. These represent higher recovery rates than those of any deposit found at Mana to date.

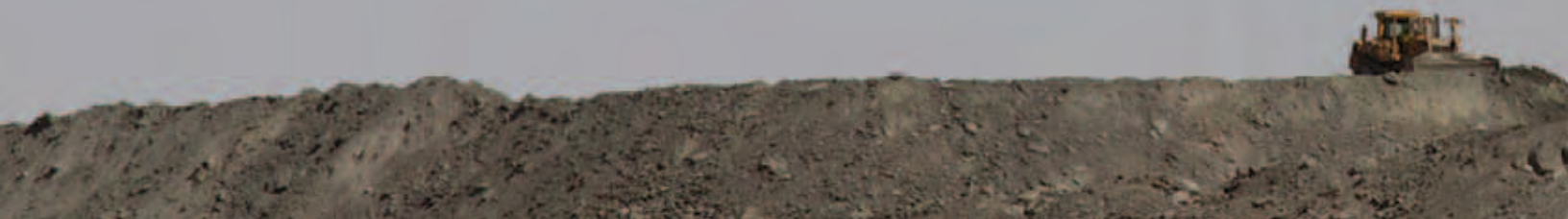
Delineation drilling at Siou in March 2013 confirmed both grade and vein thickness, particularly within the core 500-meter strike length of the mineralized zones. We also identified six different zones within the main Siou area.

In keeping with our objective to focus exploration on organic growth in the vicinity of the processing plant, we intend to add Siou to our reserve base in 2013. Our objective is to begin mining the zone in late 2014 or early 2015. Meanwhile, the deposit located along the 30-kilometer Kokoi trend continues to develop and provide excellent targets for additional resources.

If all goes according to plan, Siou would represent an opportunity to increase production and reduce total cash costs at Mana. The close proximity of the Siou Sector to the Mana processing plant offers considerable transportation, operations and infrastructure synergies.

Early in 2012, a compilation of auger drilling results identified six important gold anomalous trends on the property, once again validating the exceptional potential of the Mana property.

Results from the Wona-Kona Zone continued to reinforce our decision to proceed with the super pit scenario.



OPERATIONS

At Mana, we rallied in the fourth quarter to produce 45,600 ounces for a total annual production of 172,700 ounces at a total cash cost of $750 per ounce. Mana's production was down despite a 12% increase in ore processed during the year as we successfully commissioned a fourth phase of plant expansion. This shortfall was due to a number of factors including a lower than expected average head-grade as we were unable to access higher-grade ore during the pushback of the Wona-Kona main pit walls.

From an operations standpoint, our decision to proceed with the super pit as opposed to the underground mining scenario was unquestionably the highlight of the year. A comprehensive review of the methodology and resource base, combined with continued positive results from Wona-Kona, motivated the decision to modify our mining method for this area. We remain confident that we made the right decision. The super pit mining method will improve the overall economics of the project, minimize risks, maximize flexibility, and significantly reduce capital investments during the early years.

In the third quarter, we completed the construction of a 60-kilometer water pipeline at a cost of $5.8 million under originally budgeted $30.2 million. The pipeline ensures a sufficient water supply to the current processing plant, thereby alleviating our dependency on rainfall and underground water sources and can support plant capacity of up to 14,000 tonnes per day.

In an effort to reduce the turnaround time for assay results, we inaugurated Mana's new on-site exploration laboratory. This new testing facility is housed in a building that is completely separate from the production test area and has a processing capacity of up to 900 samples per day.

An independently owned on-site preparation facility was also established at Mana during the year. This prep lab has the capacity to crush and pulverize up to 500 pulp samples per day and also plays an important role in significantly accelerating overall assay turnaround times.

SAMIRA HILL

The Samira Hill Mine is located on the 50-kilometer gold belt commonly referred to as the Samira Horizon. It is approximately 90 kilometers west of Niamey, the capital of Niger. Production for the property totalled 49,800 ounces of gold at a total cash cost of $958 per ounce in 2012.

KINIERO

The Kiniero Mine is located in central Guinea, approximately 650 kilometers east of the capital of Conakry. In 2012, production totalled 13,600 ounces of gold at a total cash cost of $753 during approximately nine months of operation.

SEMAFO

MOVING FORWARD TOGETHER

We have often said that our experienced and dedicated team is the heart of SEMAFO's Savoir-faire and that our people, without a doubt, constitute our greatest asset. Our workforce is a key component to the success of our organization.

In an industry burdened by the complexities of a maturing workforce and a shrinking talent pool, the necessity to attract, grow, motivate, and retain talent becomes increasingly important. We view skilled trades as a core competency, crucial to our Corporation and to the reliability and efficiency of our operations. We empower our people to make continuous improvements in their areas of responsibility and we strive to create an environment in which all employees develop and contribute to their full potential.

Ours is an all-inclusive culture and work environment. It promotes mutual respect, diverse values, and the well-being and personal growth of each and every member of the SEMAFO team, which ultimately benefits our workforce, shareholders, business partners and the wider communities in which we operate.

We believe in recognizing and rewarding outstanding results and contributions to our organization. Accordingly, several years ago we initiated an employee recognition program aimed at acknowledging employee achievement in particular with respect to our corporate values: respect and integrity, excellence, know-how and teamwork. To date, more than 300 men and women have been nominated by their peers in various categories including the ability to establish and sustain a positive work environment, community involvement and individual initiatives that facilitate value creation for SEMAFO and its stakeholders.

The proportion of nationals that we employ in West Africa represents a significant 92% of our workforce. Our recruitment efforts remain focused on hiring and training local workers as part of our commitment to promote positive change within communities. Our idea: develop local talent so that they can eventually benefit from positions of responsibility. We continue to partner with Quebec-based school boards to develop and deliver tailor-made training programs and activities for our African workforces. Our expatriate employees work with national employees as mentors to transfer their Savoir-faire to their African colleagues. These programs aimed at developing local talent are at the core of our approach to improve operational competencies and have been an integral part of our organization since 2010.

We recently concluded negotiations securing a three-year collective agreement with our Mana employees in Burkina Faso.

In keeping with our mission, strategy and values, employee health and safety initiatives continue to focus on the factors that enable employees to maximize performance, while maintaining energy and engagement and striving for zero harm in the workplace. In 2012, we advocated health and safety through an expanded prevention program focusing on the systematic identification and monitoring of potential hazards and risks in the workplace. We also initiated a joint inspection program, partnering trained supervisors and employees who perform systematic inspections of various sectors of our operations with a particular focus on the rapidly changing dynamics of our environment. Validating these efforts is the achievement of a second consecutive year of no-lost-time injuries at Mana.

Through initiatives such as our employee-led work groups, our internship programs, the nationalization of jobs in our host countries and our commitment to health and safety in the workplace, SEMAFO continues to be considered an employer of choice at every level. We are proud of our reputation for offering a positive, respectful work environment and genuine career development opportunities, and we intend to continue to do so for years to come.

"It was interesting to see how small investments can generate such big results. For example how transmitting information via radio about health in different languages is an efficient way to reach large groups of people. To install a water pump can save hours for women and children who otherwise would have spent their time getting water. Time that the children can spend in school and the women can better spend on other tasks."

John Howchin, Secretary-General
Ethical Council, Sweden's AP Funds

MOVING FORWARD RESPONSIBLY

At SEMAFO, our commitment to the responsible and ethical evolution of our business underlies everything we do. Corporate social responsibility is a fundamental part of the way we conduct ourselves and is symbolic of our dual mission and values.

At SEMAFO, how we work is as important as the results we deliver. Anticipating and managing the impacts of our operations on our neighbouring communities and the broader society is at the heart of our approach to social responsibility. Impacts from our operations vary, from the temporary inconvenience of increased noise to the positive benefits of employing native people and procuring local goods and services. SEMAFO's ultimate goal is to improve the lives and livelihoods of the communities in which we operate as we pursue our purpose: to responsibly develop natural resources.

Since our beginnings, we have striven to carry out our operations in a conscientious and respectful manner. We encourage prudent environmental stewardship and believe that being a good neighbour begins with effectively managing the social impacts of our operations and limiting our environmental footprint. Our environmental programs are managing our present and protecting our future.

Water management is one of the most significant environmental and operational aspects of the mining industry. In the sub-Saharan ecosystem of West Africa, water supply, capture, storage, distribution and use become even more challenging. Water management practices at our mines focus on conservation through the diligent prevention of waste, conscientious use and recycling practices, as well as employee awareness and training programs. Independent expert firms are mandated regularly to carry out comprehensive water analysis involving some 20 different parameters on our mine's water works systems. For SEMAFO, ensuring the availability and integrity of the existing natural water supply for local communities is imperative.

For us at SEMAFO, responsible mining includes post-mining rehabilitation. To the extent possible, we endeavour to restore any area affected by our operations to its original state and to assure the long-term stability of the land following termination of our activities. In 2012, our mine site rehabilitation activities included reforestation, restoration and mine planning. During the year, more than 1,500 trees and shrubs were planted in collaboration with local groups in the communities neighbouring our mine in Burkina Faso alone.

2013 Communitas Awards Excellence Winner

SEMAFO was nominated for and was the recipient of a Communitas Award. SEMAFO was recognized for its communication initiative "Together for a Better Society" and overall Excellence in Corporate Social Responsibility.

Drawing from the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, SEMAFO's 2012 Sustainable Development Report continues to reflect our performance across a broad range of social, environmental, and economic indicators. We are also a signatory of the United Nations Global Compact, a voluntary policy platform for organizations committed to sustainability and responsible business practices. Our participation in this leading corporate citizenship initiative attests to our commitment to align our business operations and strategies with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption.

SEMAFO's "Together for a Better Society" is a national radio campaign in Burkina Faso that we debuted in 2011. The 30-minute weekly radio programs are aimed at raising awareness, providing information and facilitating discussion with regard to social, economic and environmental matters. The radio campaign continues to have an inestimable positive impact on the nation's population, with broadcasts reaching as far as neighbouring countries.

As part of our ongoing corporate philanthropy program, in 2012 we once again pledged up to two percent of our Corporation's net earnings to support the vital works of *Fondation SEMAFO*. Thanks to our contributions, numerous sustainable revenue-generating projects and programs have been established and continue to evolve in our West-African host countries. The economic benefits of these initiatives will endure to touch the lives of thousands of nationals for generations to come.

Most West-African countries have inadequate energy resources. With electrification rates below 30%, the negative repercussions on industrial and agricultural growth as well as on education are considerable. Accordingly, when possible, SEMAFO provides assistance to West-African countries to help them identify and generate new sources of energy and electricity.

Giving back to the communities in which we operate is a deeply-rooted value and an integral part of our Savoir-faire. At SEMAFO, we believe that building meaningful long-term relationships is the cornerstone to a solid foundation of social responsibility and that when our host communities thrive, long-term benefits will result for our organization and its shareholders.

BOARD OF DIRECTORS

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Chairman of the Board
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Services Inc.

GILLES MASSON, CPA, CA [1*, 2]
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LAWRENCE McBREARTY [2, 3*]
Labour Relations Consultant

1 Member of Audit Committee
2 Member of Human Resources and Corporate Governance Committee
3 Member of Environment, Health and Safety and Sustainable Development Committee

* Committee Chair

OFFICERS

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President and Chief Executive Officer

MARTIN MILETTE, CPA, CA
Chief Financial Officer

ERIC PAUL-HUS, LL.L
Vice-President, Law and Corporate Secretary

MICHEL CREVIER, PGeo, MScA
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ANNUAL SHAREHOLDERS MEETING

The Annual General Shareholders Meeting will be held at 4:00 p.m. on Monday, May 13, 2013.
Le Centre Sheraton Montréal
Salon Drummond Ouest
1201 René-Lévesque Boulevard West
Montreal, Quebec
H3B 2L7

STOCK EXCHANGE LISTINGS

THE TORONTO STOCK EXCHANGE
THE STOCKHOLM STOCK EXCHANGE
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.
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Toll-Free: 1 888 744-4408
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FORWARD-LOOKING STATEMENTS

This document 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. Forward-looking statements include words or expressions such as “priorities”, “create”, “future”, “initial”, “expanding”, “add”, “potential”, “targets”, “ongoing”, “plan”, “develop”, “expand”, “pipeline”, “improve”, “guidance”, “intend” “moving forward” 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 (i) execute on our strategic priorities, (ii) create future cash flows, (iii) expand the Siou Sector and add Siou to reserves in 2013, (iv) develop and expand our project pipeline/portfolio, (iv) optimize and improve efficiencies throughout the organization, (v) achieve production of between 215,000 and 240,000 ounces of gold in 2013 at an overall average total cash cost of between $855 and $905 per ounce. Other risks and uncertainties relate to fluctuations in currency exchange rates, the price of gold and our operating costs, as well as mining industry risks and uncertainties 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 annual documents for the financial year ended December 31, 2012 filed with Canadian securities regulatory authorities and available at www.sedar.com. These documents are also available on our website at www.semafo.com. SEMAFO disclaims any obligation to update or revise these forward-looking statements, except as required by applicable law.

MOVING FORWARD

2012

ANNUAL FINANCIAL INFORMATION

SEM AFO

INTERNATIONAL EXPERTISE®
HUMAN ADVOCACY

SEMAFO (the "Corporation") is a Canadian-based mining company with gold production and exploration activities in West Africa. The Corporation and its subsidiaries currently operate three gold mines: the Mana Mine in Burkina Faso, the Samira Hill Mine in Niger and the Kiniero Mine in Guinea. SEMAFO is committed to evolve in a conscientious manner to become a major player in its geographical areas of interest. SEMAFO's strategic focus is to maximize shareholder value by effectively managing its existing assets as well as pursuing organic and strategic growth opportunities.

This Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to assess material changes in financial condition and results of operations for the year ended December 31, 2012 compared to the previous year. This MD&A, prepared as of March 20, 2013, is intended to complement and supplement our Audited Consolidated Financial Statements (the "financial statements") as at December 31, 2012. 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

	2012	2011	2010
Gold ounces produced	**236,100**	250,100	261,100
Gold ounces sold	**231,500**	249,600	260,800
(in thousands of dollars, except amounts per ounce, per tonne and per share)			
Revenues – Gold sales	**388,501**	395,916	323,275
Operating income	**34,626**	154,164	124,750
Net (loss) income attributable to equity shareholders	**(6,604)**	111,759	100,459
Basic (loss) earnings per share	**(0.02)**	0.41	0.38
Diluted (loss) earnings per share	**(0.02)**	0.40	0.37
Adjusted operating income[1]	**111,624**	154,164	124,750
Adjusted net income attributable to equity shareholders[1]	**77,809**	111,759	100,459
Adjusted basic earnings per share[1]	**0.28**	0.41	0.38
Cash flow from operating activities[2]	**155,406**	171,875	147,498
Operating cash flow per share[3]	**0.57**	0.63	0.56
Average realized selling price (per ounce)	**1,678**	1,586	1,240
Cash operating cost (per ounce produced)[4]	**704**	591	466
Cash operating cost (per tonne processed)[4]	**35**	35	33
Total cash cost (per ounce sold)[5]	**793**	677	517
Total cash margin (per ounce sold)[6]	**885**	909	723
Total assets	**702,660**	724,011	591,870
Cash dividends declared per share	**0.04**	0.02	–

1 Adjusted operating income, adjusted net income attributable to equity shareholders and adjusted basic earnings per share are non-IFRS financial performance measures with no standard definition under IFRS. In 2012, the adjusted operating income excludes the write-off of property, plant and equipment of $16,998,000 related to the underground project and $60,000,000 related to the impairment of non-financial assets of the Samira Hill Mine, while the adjusted net income attributable to equity shareholders and the adjusted basic earnings per share also exclude the loss on the sale of a current investment totalling $24,297,000, as well as the income tax expense and the non-controlling interest impact totalling $16,882,000 related to these non-recurring transactions.

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

3 Operating cash flow per share is a non-IFRS financial performance measure with no standard definition under IFRS. See the "Non-IFRS financial performance measures" section of this MD&A.

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

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

6 Total cash margin is a non-IFRS financial performance measure with no standard definition under IFRS and is calculated using the average realized selling price and the total cash cost.

1. Financial and Operating Highlights (continued)

Fourth Quarter Financial and Operating Highlights

	Three-month period ended December 31,		
	2012	2011	Variation
Gold ounces produced	**62,400**	64,800	(4%)
Gold ounces sold	**64,200**	67,200	(4%)
(in thousands of dollars, except amounts per ounce, per tonne and per share)			
Revenues – Gold sales	**110,305**	113,854	(3%)
Operating income (loss)	**(28,055)**	47,448	(159%)
Net income (loss) attributable to equity shareholders	**(25,156)**	33,277	(176%)
Basic earnings (loss) per share	**(0.09)**	0.12	(175%)
Diluted earnings (loss) per share	**(0.09)**	0.12	(175%)
Adjusted operating income[1]	**31,945**	47,448	(33%)
Adjusted net income attributable to equity shareholders[1]	**22,339**	33,277	(33%)
Adjusted basic earnings per share[1]	**0.08**	0.12	(33%)
Cash flow from operating activities[2]	**48,564**	54,325	(11%)
Operating cash flow per share[3]	**0.18**	0.20	(10%)
Average realized selling price (per ounce)	**1,718**	1,694	1%
Cash operating cost (per ounce produced)[4]	**695**	559	24%
Cash operating cost (per tonne processed)[4]	**34**	35	(3%)
Total cash cost (per ounce sold)[5]	**788**	665	18%
Total cash margin (per ounce sold)[6]	**930**	1,029	(10%)

1 Adjusted operating income, adjusted net income attributable to equity shareholders and adjusted basic earnings per share are non-IFRS financial performance measures with no standard definition under IFRS. In 2012, the adjusted operating income excludes the write-off of property, plant and equipment of $60,000,000 related to the impairment of non-financial assets of the Samira Hill Mine, while the adjusted net income attributable to equity shareholders and the adjusted basic earnings per share also exclude the income tax recovery expense and the non-controlling interest impact totalling $12,505,000 related to this non-recurring transaction.

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

3 Operating cash flow per share is a non-IFRS financial performance measure with no standard definition under IFRS. See the "Non-IFRS financial performance measures" section of this MD&A.

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

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6 Total cash margin is a non-IFRS financial performance measure with no standard definition under IFRS and is calculated using the average realized selling price and the total cash cost.

A Word from the CEO[1]

For SEMAFO, 2012 was a year of transition on many levels. Although disappointing in terms of shareholder value, it nevertheless gave rise to numerous positive aspects with regard to our core business, from both strategic and operational perspectives. We achieved production and cost guidance for a fifth consecutive year. Our production totalled 236,100 gold ounces, just slightly below our 2011 results. Our annual revenues from gold sales posted only a 2% decrease from 2011 to stand at $388.5 million.

The highlight of the year from our standpoint was the discovery of the new high-grade Siou Sector at Mana. This vastly prospective area located approximately 15 kilometers east of our processing plant holds one million ounces of initial in-pit inferred resources at an average 4.62 g/t Au and a gold recovery rate of over 95%. Based on results to date, the Siou Sector where ongoing exploration work is being carried out has already become SEMAFO's most important find ever.

Another important event was the conversion of the Mana underground project to a super-pit. This decision, although it led to a $17 million write-off, was purely an economic decision based on the best return on investment as capital expenditures are spread out over the life of mine.

SEMAFO's reserves and resources decreased slightly to 6.6 million ounces in 2012. This is due to the removal of refractory sulphides from the south sector at Mana and the revision of Samira Hill's reserves and resources that became uneconomic following the review of technical and economic parameters. The revision at Samira Hill resulted in a non-cash impairment of $60 million in the fourth quarter of 2012. At Mana, the inferred category grade, however, almost doubled to 3.18 g/t Au as we included the high-grade Siou Sector in this category.

A comprehensive strategic review of the Corporation conducted during the latter part of the year facilitated the establishment of a realistic plan to move forward. We validated our top ensuing long-standing priority: to create value by generating future cash flow, while maintaining our solid operational performance. As the world economy continues to change shape, we will continue to focus on quality ounces as part of our strategy and ongoing efforts to reduce costs and optimize cash flow.

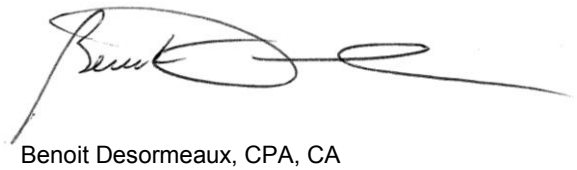
Our short-term priorities are to bring the Siou Sector to reserves by the third quarter of 2013, initiate the permitting process and begin mining by the end of 2014 or early 2015. We also intend to focus exploration activities within the 20-kilometer radius of the Mana processing plant and carry out exploration on the 30-kilometer Kokoi Trend, host to the high-grade Siou Sector.

Today, with ore sourced almost exclusively from the super pit, we can sustain operations at the plant at full capacity for the next eight to ten years. Owing to the Siou's high-grade mineralization, however, development of the sector could represent an opportunity to reduce our operating cost, boost production and ultimately increase cash flow within the next 18 to 24 months. Moreover, the south sector has yet to be added to the scenario. We believe that the Corporation's fundamentals and potential for creating shareholder value are as strong as ever.

We believe that SEMAFO represents an undeniable investment opportunity. Today, our Corporation's share price is significantly undervalued and far from indicative of the numerous opportunities on the horizon. We are cognizant that our Mana property will serve as the cornerstone of our Corporation's evolution and approach to intelligently grow our business.

SEMAFO is financially sound, has a solid cash position, is debt-free and completely unhedged. Since November 2011, our Corporation has paid out three dividends. We continue to strive for excellence in health and safety and lead the way in corporate responsibility. Our dedicated team continues to pull together in the pursuit of excellence and an overall commitment to simply doing more. We are determined to optimize operations at all levels, improve efficiencies and contain costs.

We are optimistic for 2013. We have established a clear strategy to identify new quality ounces, expand reserves and resources, and build future cash flow. The task at hand is to create value and, moving forward, we are confident that we have the assets, the talent and the ability to do just that.



Benoit Desormeaux, CPA, CA
President and Chief Executive Officer

[1] Certain statements in *A Word from the CEO* are forward-looking. For more information on forward-looking statements, see note 24.

2012 – The Year in Review

- Gold production of 236,100 ounces compared to 250,100 ounces in 2011
- Gold sales of $388.5 million, a 2% decrease compared to 2011
- Operating income of $34.6 million compared to $154.2 million in 2011
- Net loss attributable to equity shareholders of $6.6 million or $(0.02) per share compared to net income attributable to equity shareholders of $111.8 million or $0.41 per share in 2011
- Cash flow from operating activities[1] of $155.4 million or $0.57 per share
- Discovery of the high-grade Siou Sector at Mana, with one million ounces of initial in-pit inferred resources at an average grade of 4.62 g/t Au
- Decision to move from an underground mining project to an improved overall economic super pit scenario resulted in a non-recurring loss of $17.0 million
- Completed 60-kilometer water pipeline to accommodate Mana processing plant at a cost of $5.8 million less than the originally budgeted $30.2 million
- Record throughput at Mana following the commissioning of Phase IV of the plant expansion
- Non-cash impairment charge of $60.0 million on the Samira Hill Mine
- Sale of current investment resulted in a non-recurring loss of $24.3 million
- Declaration of C$0.04 per share dividends to equity shareholders
- SEMAFO's Board of Directors appointed Benoit Desormeaux, formerly Executive Vice-President and Chief Operating Officer, to the position of President and Chief Executive Officer of the Corporation

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

2012 FOURTH QUARTER REVIEW

- Gold production of 62,400 ounces, a decrease of 4% compared to the same period in 2011
- Gold sales of $110.3 million, a 3% decrease compared to the same period in 2011
- Non-cash impairment charge of $60.0 million on the Samira Hill Mine
- Operating loss of $28.1 million, a decrease of 159% compared to the same period in 2011
- Net loss attributable to equity shareholders of $25.2 million or $(0.09) per share compared to net income attributable to equity shareholders of $33.3 million or $0.12 per share for the same period in 2011
- Cash flow from operating activities[1] of $48.6 million or $0.18 per share compared to $54.3 million or $0.20 per share in the same period in 2011

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

2012 Objectives	2012 Achievements
Maximize Value	
▪ Continue exploration programs directed at growing reserves and resources with an initial global exploration budget of $45 million, of which $36 million is allocated to Mana	▪ Discovered the new Siou Sector with one million ounces of initial in-pit inferred resources at an average 4.62 g/t Au and a 95% recovery rate ▪ Updated Mana reserve and resource estimate as at December 31, 2012, net of mining depletion: • 1.9 million ounces of proven and probable reserves – 25.1 million tonnes at an average grade of 2.31 g/t Au • 3.0 million ounces of measured and indicated resources – 48.6 million tonnes at an average grade of 1.93 g/t Au • 1.9 million ounces of inferred resources – 18.3 million tonnes at an average grade of 3.18 g/t Au ▪ Identified six important mineralized trends on the Mana property, including the 30-kilometer Kokoi Trend, host to the high-grade Siou Sector ▪ Adopted overall improved economic super-pit mining scenario at Wona-Kona ▪ Built and commissioned an on-site exploration laboratory and prep facility at Mana to accelerate turn-around time
Disciplined Growth and Responsible Mining	
▪ Achieve production of between 235,000 and 260,000 ounces of gold at a cash operating cost of between $700 and $750 per ounce	▪ Gold production of 236,100 ounces ▪ Cash operating cost of $704 per ounce
▪ Increase Mana plant capacity to attain throughput of up to 8,000 tonnes per day in blended ore	▪ Completed Phase IV Plant expansion at Mana ▪ Achieved best ever annual throughput of 2.7 million tonnes at the Mana plant, an increase of 12% year over year ▪ Processed an average of 8,500 tonnes per day at Mana in the fourth quarter ▪ Completed 60-kilometer water pipeline to accommodate Mana processing plant at a cost of $5.8 million less than the originally budgeted $30.2 million
▪ Attract and retain best mining talent	▪ Signed three-year labour agreement at Mana (early 2013) ▪ Third Annual Employee Recognition Program
▪ Continue human resources initiatives in the areas of health and safety, and employee training and development	▪ Delivered more than 11,200 hours of technical training and leadership development programs ▪ No lost-time injuries at Mana for a second consecutive year ▪ Expanded work safety prevention program
▪ Manage effectively to minimize our environmental footprint	▪ Published SEMAFO's third annual sustainability report in keeping with Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines – Application Level B
▪ Continue corporate philanthropy program, contributing up to 2% of net income to *Fondation SEMAFO*	▪ Contributed $2 million to *Fondation SEMAFO* ▪ Continued informative "Together for a Better Society" national radio campaign in Burkina Faso.
▪ Increase sustainable development programs in host countries	▪ Maintained support of sustainable development initiatives in our host countries, including sesame production and Shea manufacturing ▪ Signatory of the United National Global Compact ▪ Recipient of the *Communitas Award* for Corporate Social Responsibility

2013 Objectives[1]

What We Plan to Do	How We Plan to Do It
▪ Maximize organic growth at our flagship Mana property	▪ Through disciplined exploration ▪ With an initial exploration budget of $20 million for Mana ▪ By focusing exploration: • On expanding the Siou Sector • On adding Siou to reserves in 2013 • Within a 20-kilometer radius of the processing plant • On potential new targets along the 30-kilometer Kokoi Trend, host to the Siou Sector ▪ By initiating the permitting process for Siou
▪ Develop and expand our project pipeline/portfolio	▪ Through the ongoing exploration of high potential targets throughout the Mana property ▪ Through the ongoing assessment of accretive acquisition opportunities
▪ Optimize and improve efficiencies throughout the organization	▪ By focusing on quality ounces ▪ Through rigorous cost management ▪ By conducting internal reviews to improve efficiency ▪ By reviewing strategic alternatives for the Samira Hill and Kiniero assets
▪ Deliver solid operational performance	▪ By achieving production guidance of between 215,000 and 240,000 ounces of gold ▪ By achieving an overall average total cash cost of between $855 and $905 per ounce
▪ Attract and retain the best mining talent	▪ Through ongoing training and development, internship programs and employee-led work programs ▪ By developing local talent ▪ Through the nationalization of jobs ▪ By promoting an environment of mutual respect, diverse values and personal growth
▪ Maintain safe and reliable operations	▪ Through prudent environmental stewardship ▪ By continuously evolving our health and safety initiatives
▪ Propagate SEMAFO's Savoir-faire in host countries	▪ By continuing to foster good relationships with local communities, governments and non-governmental organizations ▪ By realizing and continuing to foster sustainable development initiatives ▪ Through the continued support of *Fondation SEMAFO*

[1] These statements are forward-looking. For more information on forward-looking statements, see note 24.

2. Key Economic Trends[1]

Price of Gold

The price of gold is the most significant factor affecting our profitability and our operating cash flows. Accordingly, our current and future financial performance is closely linked to the price of gold. Gold is subject to volatile price movements and is impacted by various industries and macroeconomic factors that are beyond our control, such as currency exchange rate fluctuations, the relative strength of the US dollar, inflation expectations and increased demand for gold as an investment asset.

The current global economic crisis impairs confidence in currencies, emphasizing gold as an alternative safe-haven asset for investors and placing upward pressure on the price of gold. Historically, the limited choice of alternative safe-haven investments and the strength of physical demand are significant drivers of the overall gold market. As a result, the price of gold remained high in 2012.

During 2012, the price of gold, based on the London Gold Fix PM, fluctuated from $1,540 to a high of $1,792 per ounce. Following the US Federal Reserve announcement in September 2012 of easing monetary policy, which includes keeping the interest rates low until the middle of 2015, the price of gold increased to a high of $1,792 per ounce in 2012, retrenching in December 2012 as a result of the US fiscal cliff. The average market gold price in 2012 was $1,669 per ounce compared to $1,572 per ounce in 2011, representing an increase of $97 or 6%. The average market gold price in 2012 reached an all-time record high.

Gold Price History
January 2011 to December 2012

In 2012, our average realized selling price was $1,678 per ounce compared to the average London Gold Fix of $1,669 per ounce.

	2012					2011
(in dollars per ounce)	Q4	Q3	Q2	Q1	YTD	YTD
Average London Gold Fix	1,722	1,652	1,609	1,691	1,669	1,572
Average realized selling price	1,718	1,665	1,615	1,710	1,678	1,586

[1] These statements are forward-looking. For more information on forward-looking statements, see note 24.

2. Key Economic Trends[1] (continued)

Cost Pressures

The Corporation has been affected by industry-wide pressures on development and operating costs. Since our activities are energy intensive, a change in fuel price can have a significant impact on our operations and associated financial results. Our sites experienced fuel cost increases during 2012 compared to 2011. In 2012, the price of fuel experienced volatility as a result of global economic concerns, ampler world inventory and the US fiscal cliff at the end of the year. As a benchmark for fuel costs, the Brent Crude price averaged $112 per barrel in 2012 and remained stable compared to $111 per barrel in 2011.

Brent Crude Average Price
January 2011 to December 2012

Foreign Currencies

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

In 2012, the US dollar was stronger relative to the Euro when compared to 2011, which reflected the deterioration of Europe's global economy as the result of the continent's debt crisis. Therefore, in 2012 the foreign exchange fluctuation positively impacted our cash operating cost.

3. Exploration Programs – 2012 Reserves and Resources

A total of $52 million was invested in our properties in 2012 in Burkina Faso, Niger and Guinea. Drilling and exploration primarily focused on the Corporation's flagship Mana property for an amount totalling $40 million. The consolidated exploration program comprised 47,700 meters of core drilling, 327,000 meters of reverse-circulation/air core drilling ("RC/AC") and 110,000 meters of auger drilling.

In 2012, the Corporation successfully completed the construction of an exploration preparation laboratory at Mana to improve the turnaround time for exploration-drilling assays. The laboratory now has a capacity to analyze 900 samples per day.

[1] These statements are forward-looking. For more information on forward-looking statements, see note 24.

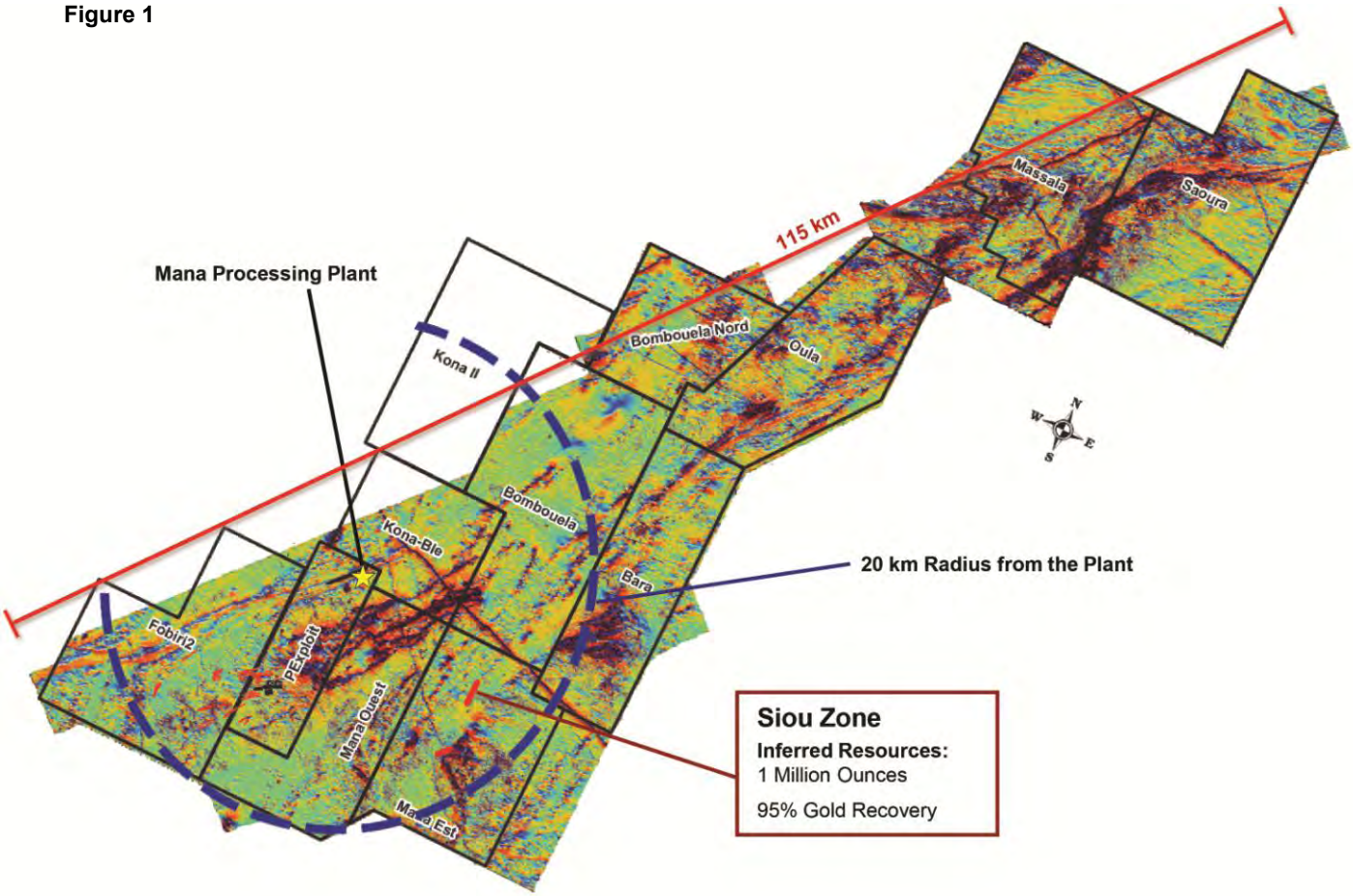
3. Exploration Programs – 2012 Reserves and Resources (continued)

Burkina Faso

Exploration programs in 2012 continued to expand Mana's exceptional geological potential. In August we discovered the high grade Siou Zone, which is located approximately 15 kilometers east of the Mana processing plant (Figure 1).

In light of the encouraging results from the Siou Sector, the Corporation completed 8,600 meters of core drilling and 22,400 meters of RC/AC drilling in 2012. A delineation program is currently underway and is expected to be completed in the first half of 2013 with the aim of adding the Siou Zone to reserves in the third quarter.

Figure 1



Siou Sector – SEMAFO's Most Important Discovery

The Siou Zone is located along the Kokoi Trend, a north-northeast trending magnetic lineament, which can be traced over a distance of approximately 30 kilometers (Figure 2). The Siou Sector discovery came from auger drilling results along the trend that showed a coincident gold geochemical anomaly that was traced for a minimum of one kilometer.

Gold mineralization is associated with abundant quartz veining and silicification principally within the intrusive side of the contact. Although sulphide mineralization appears relatively weak, gold values obtained have generally been high, particularly within the most silicified areas.

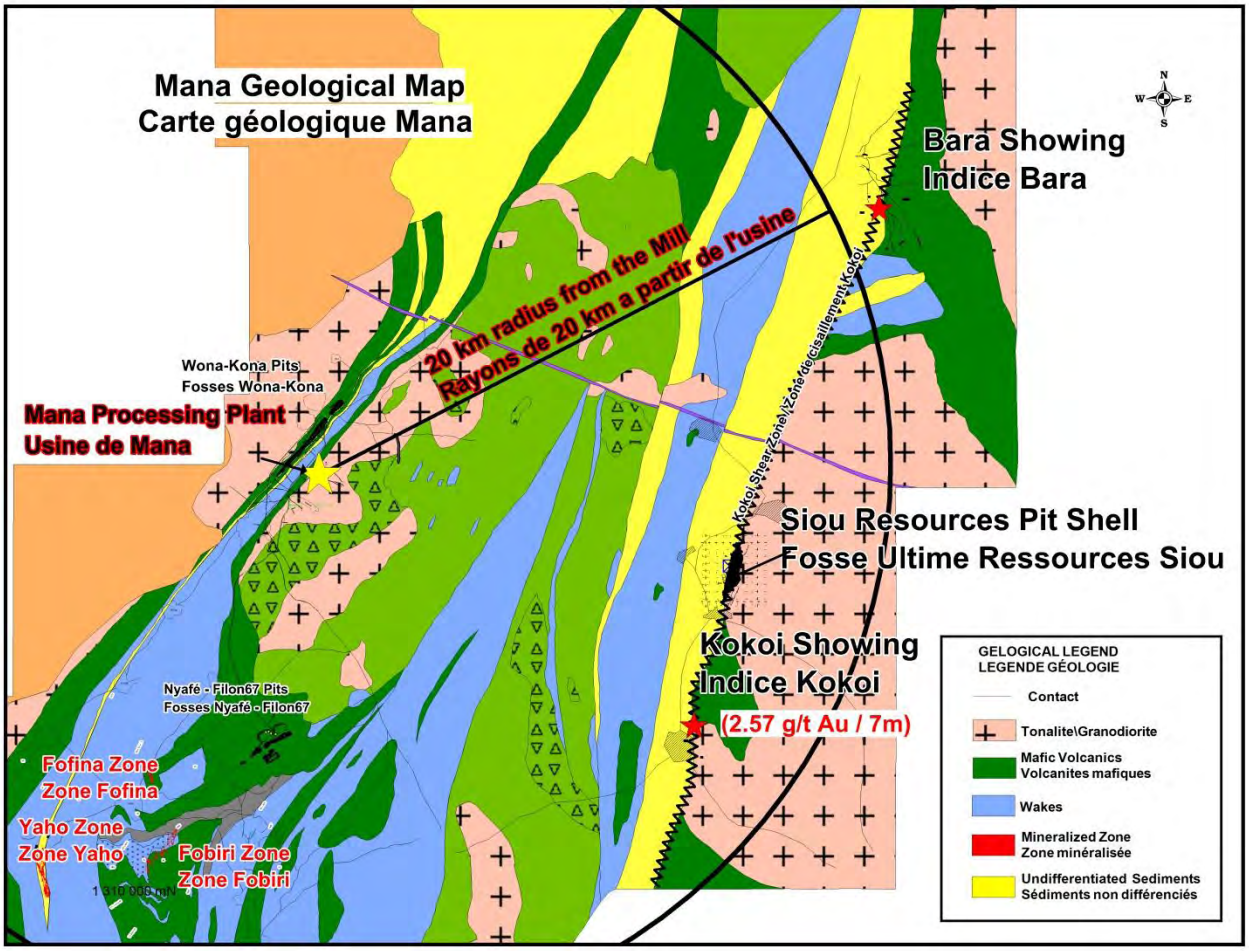
The drilling completed to date shows a close two-kilometer section of the shear zone containing abundant quartz veining and high gold values, albeit some pinching and swelling, expected with this type of mineralization style. Zones parallel to Siou have also been identified. In addition, the Siou Sector seems to correlate with the Kokoi Zone where limited drilling completed in 2010 returned values of up to 2.57 g/t Au over seven meters. The Kokoi Zone is located approximately four kilometers south of the Siou Sector. The four-kilometer strike length between the Siou and Kokoi areas will be tested in early 2013.

3. Exploration Programs – 2012 Reserves and Resources (continued)

Siou Sector – SEMAFO's Most Important Discovery (continued)

The Siou mineralized Sector was discovered in the third quarter of 2012 and rapidly became an exploration priority. On February 21, 2013, the Corporation announced 999,200 ounces in initial inferred in-pit resources from the Siou Sector. The inferred resources of 6.7 million tonnes at a grade of 4.62 g/t Au include all zones identified within the Siou Sector. The estimation database includes 132 RC holes (17,600 meters) and 46 diamond-drill holes (9,500 meters). This discovery is more significant than the initial Nyafé and Wona discoveries, which led to the construction of the Mana processing plant.

Figure 2



The following table presents information regarding the initial in-pit inferred resource estimation.

Siou Sector Inferred Resources (in situ)				
Zone	**Tonnes (000)**	**Grade (g/t Au)**	**Waste Tonnes (000)**	**Ounces**
Siou	2,732	5.74		504,000
Nine	3,410	4.02		440,400
All others	589	2.90		54,800
Total	**6,731**	**4.62**	**139,928**	**999,200**

3. Exploration Programs – 2012 Reserves and Resources (continued)

Siou Sector – SEMAFO's Most Important Discovery (continued)

A pit shell simulation was produced and is shown for the two main longitudinal sections of the Nine Zone and the Siou Zone (Figure 3). Only the inferred resources over 1 g/t Au within the pit shell were included. Although deeper intersections were obtained below the pit shell, their distances from other intersections are currently too far to permit inclusion (Figure 4). The pit shell is approximately two kilometers long and 250 meters deep.

Drilling to date indicates that the Siou area is covered by a thin soil and iron cap cover followed by a saprolitic and transitional horizon measuring approximately 50 to 80 meters thick, before transforming to fresh bedrock. The mineralization occurs at or near the contact between a sedimentary unit to the west and a granodioritic intrusive to the east where series of shear zones containing quartz veining and sericite alteration over thicknesses of 5 to 25 meters are observed. The Siou Zone and the Nine Zone vary from less than one meter to close to 20 meters in width, with an average of between 4 and 4.5 meters. The shear zones dip approximately 45 to 60 degrees to the east.

A preliminary sensitivity analysis of the deposit was also completed using numerous gold price scenarios, demonstrating that the high-grade Siou Deposit is only minimally affected by variations in the price of gold.

Siou Sector Inferred Resources (in situ)				
Gold price (US$)	**Tonnes (000)**	**Grade (g/t Au)**	**Ounces**	**Variance**
$1,600	6,731	4.62	999,200	--
$1,300*	6,844	4.48	986,800	(1%)
$1,000*	5,684	5.04	921,300	(8%)

*Calculated using July 2012 Wona-Kona reserve cost parameters.

The initial inferred resource estimate at Siou could enhance the head-grade at the Mana processing plant for years to come. This could provide great synergy with current mining operations and should consequently reduce the total cash cost per ounce at Mana should the Siou Deposit advance to production.

The specific parameters used for the Siou inferred resource estimate include:

- Minimum of three holes to allow interpolation in block model
- A 15% dilution applied
- A 95% carbon-in-leach ("CIL") mill recovery rate in both oxide and sulfide mineralization
- Costs include transportation to the Mana processing plant (15 km)
- Other cost parameters used are the same as the resource cost parameters in the Advanced Technical Report, Mana Property (NI 43-101) dated July 11, 2012

Geostatistical analyses generate a capping grade of 40 g/t Au for the Siou, the Nine and the 55 Zones, affecting 2.6% of the 870 composites and removing 9% of the included metal. All other zones are capped at 35 g/t Au.

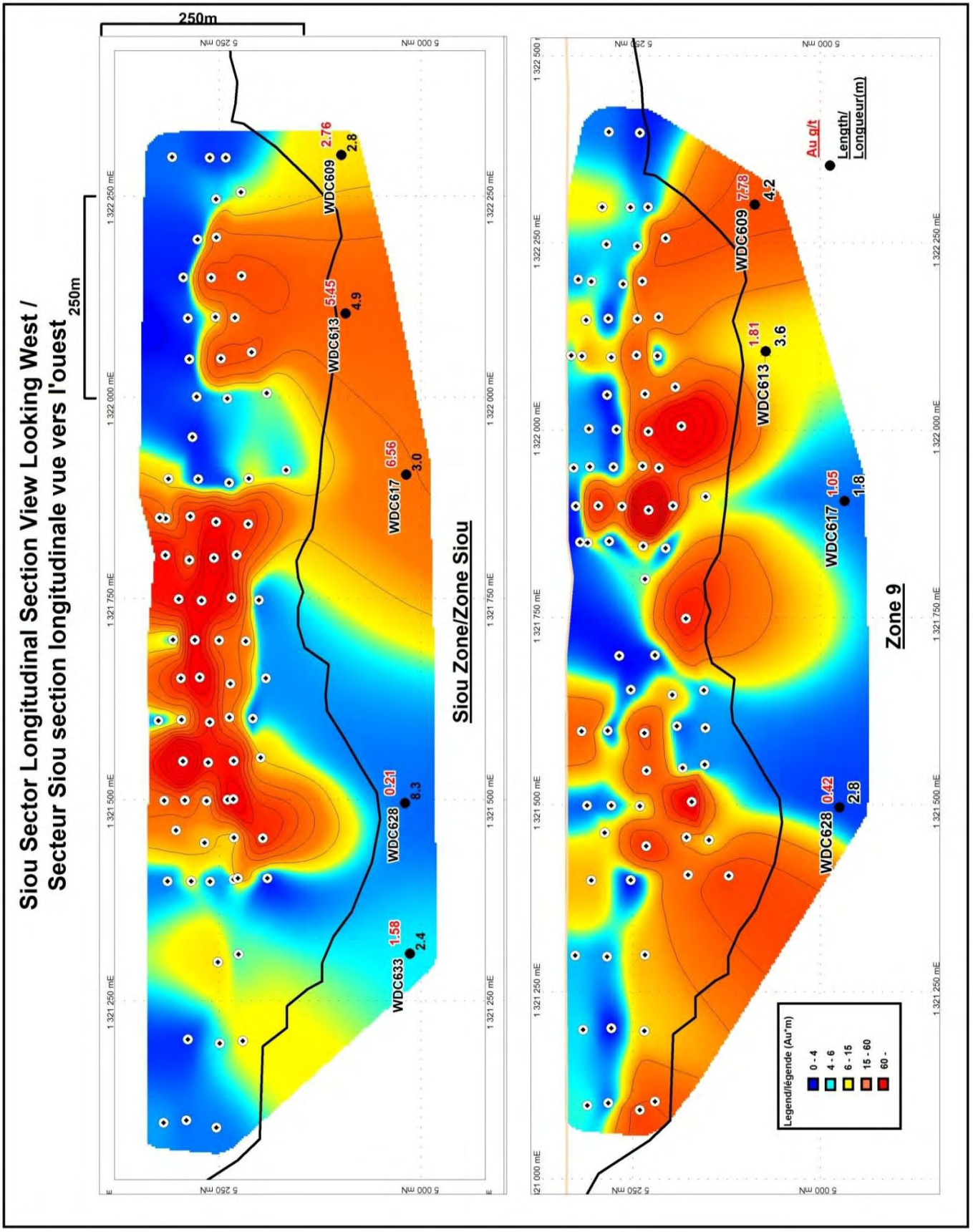
Yaho

The 2012 step-out and delineation drilling program at Yaho was designed to refine the geological interpretation of the mineralized zones and to better delineate the continuity of the mineralization, particularly within the northern portion of the 1.7 kilometer-long gold-bearing zones. The results showed that mineralization appears more regularly in the north sector, returning values of up to 3.75 g/t Au over 56 meters (MRC12-2007).

Some drilling was completed to test the north and south limits of the known deposit. A total of 37,800 meters of RC holes were completed in 2012 together with 1,500 meters of core drilling, metallurgical test sampling and geological data. Current work underway at Yaho includes metallurgical testing. We have initiated heap leach tests on the oxide at Yaho, the results of which should be forthcoming in the third quarter of 2013.

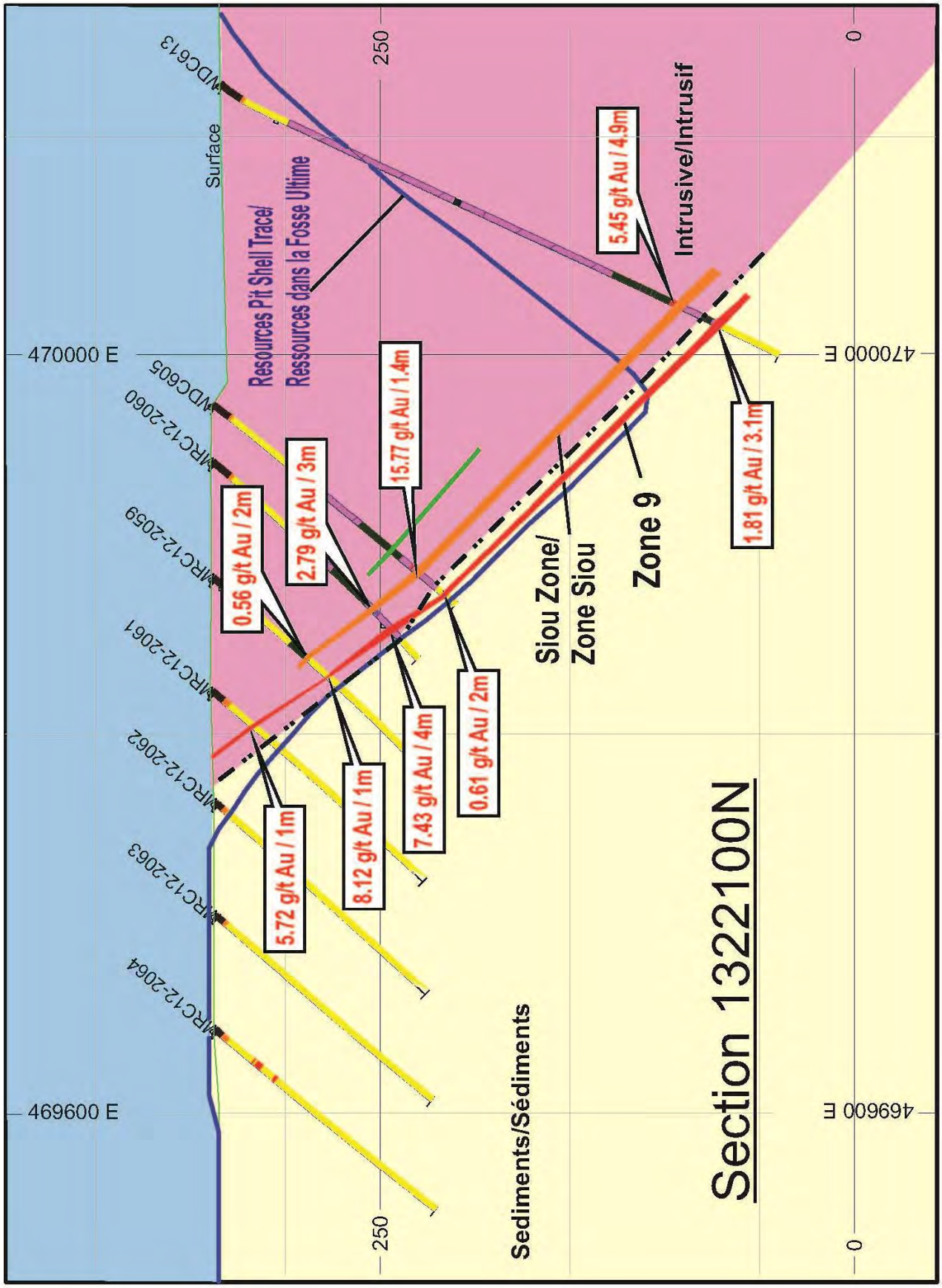
3. Exploration Programs – 2012 Reserves and Resources (continued)

Figure 3



3. Exploration Programs – 2012 Reserves and Resources (continued)

Figure 4 – Cross Section



3. Exploration Programs – 2012 Reserves and Resources (continued)

Drilling Program for 2013

The Corporation continues to focus exploration on organic growth at Mana in the vicinity of the processing plant as well as on strategic investment opportunities.

The 2013 initial exploration budget has been established at $22.0 million, of which $20.1 million will be used to focus on the 20-kilometer radius surrounding the Mana processing plant. Siou's Kokoi Trend will be intensely explored. Less than 20% of the investment will be used to explore other shear zones outside the radius. The budget could increase if exploration results are promising.

Siou remains a priority for the Corporation in 2013 in an effort to fast-track the deposit towards production. More than 107,000 meters of combined AC, RC and diamond drilling, metallurgical tests, and geochemistry and geophysics work will be carried out in 2013. The Corporation's 2013 priority is to convert the high-grade Siou Zone to reserves during the year.

Next Steps for Growth

- Thirty thousand meters of delineation drilling is underway at Siou with initial grid spacing at 50 x 25 meters before moving down to 25 x 25 meters, with the objective to convert as much of the in-pit inferred resources to the reserves category in the third quarter of 2013.
- Initiate the permitting process with the mine plan and an Environmental Impact Assessment (EIA).
- Begin mining the Siou Sector in late 2014 or early 2015.
- Ongoing drilling to test lateral extension and deeper mineralization at Siou.
- Explore the 30-kilometer Kokoi Trend on a larger scale.

Niger

A total of 56,110 meters of RC/AC drilling and 3,850 meters of core drilling were completed in 2012 on the Samira Hill tenement for total investment of $6.2 million. The focus was mainly on the Libiri sector (NO, SE and S), Boulon Jounga and the early stage Tondé Boubangou.

During the second quarter of 2012, the Corporation announced the discovery of a new mineralized trend of the Tondé Boubangou Horizon located 20 kilometers north of the Samira Hill processing plant. This new horizon has been traced over a distance of 10 kilometers along strike. Results returned values of up to 1.48 g/t Au across 43 meters, 1.41 g/t Au over 32 meters and 1.89 g/t Au over 22 meters. Core drilling and geological observations suggest that this horizon could have a geological environment similar to the main Samira Horizon, which hosts all of the known gold deposits mined to date on the property.

The horizon is intensely altered, and mineralization consists of disseminated pyrite and arsenopyrite, occurring at the interface between basalts and sedimentary formations.

Mineralization was encountered along the entire length of the sedimentary unit, which remains open in all directions. Widths of the mineralization are consistently important. Detailed geological mapping, RC follow-up and core drilling were realized to enhance our understanding of the controls and, at the same time, establish the continuity and geometry of the identified mineralized zones within the 10-kilometer long horizon.

Guinea

In 2012, we invested $5.8 million in an exploration program of Gobelé A and Jean-Ouest sectors to investigate the potential of large-tonnage, lower grade mineralization. Some drilling was also realized in the Ouest Balan area seeking other lodes. A total of 18,200 metres of RC/AC drilling and 11,500 meters of core drilling were carried out.

2012 Reserves and Resources

SEMAFO's 2012 year-end mineral reserves totalled 36.7 million tonnes at an average grade of 2.08 g/t Au for 2.5 million ounces compared to 37.9 million tonnes at 2.18 g/t Au for 2.7 million ounces in 2011. The decrease in reserves is mainly due to 2012 production and the reduction in Samira Hill's reserves.

The 2012 measured and indicated resource average grade increased by 15% to 1.89 g/t Au for a total of 4.2 million ounces as compared to 4.7 million ounces in 2011. The decrease in resources is due to the Samira Hill revision as well as to the removal of most of the refractory sulphide material from the south sector deposits (Yaho, Fofina and Fobiri), which was uneconomical according to various metallurgical tests conducted during the year. The 2012 measured, indicated and inferred resources in Mana's south sector are mainly composed of oxide and transitional mineralization and are not refractory.

3. Exploration Programs – 2012 Reserves and Resources (continued)

2012 Reserves and Resources (continued)

Total inferred resources amounted to 36.3 million tonnes at an average grade of 2.57 g/t Au for 3.0 million ounces as compared to 61.4 million tonnes at 1.51 g/t Au for 3.0 million ounces in 2011. A slight gain in inferred resource ounces and the 89% increase in grade, despite the removal of the majority of the refractory sulphide material from the 2012 inferred resources are due to the inclusion of the initial in-pit inferred resources from the high-grade Siou Zone. Discovered in August 2012, Siou hosts 6.7 million tonnes at 4.62 g/t Au for close to one million ounces.

Our Flagship Mana Mine, Burkina Faso

Highlights:

- Mana's reserves totalled 1.9 million ounces
- Mana's measured and indicated resources increased by 8% to 3.0 million ounces and the average grade increased by 14% to 1.93 g/t Au
- The Wona-Kona super pit reserves stand at 1.6 million ounces at an average grade of 2.21 g/t Au
- Mana's inferred resources' average grade increased by 89% to 3.18 g/t Au resulting from the addition of the Siou Zone initial in-pit inferred resources of 999,200 ounces, bringing total inferred resources to 18.3 million tonnes at an average grade of 3.18 g/t Au for 1.9 million ounces

Mana's mineral reserves total 25.1 million tonnes at an average grade of 2.31 g/t Au at year-end 2012 compared to 25.7 million tonnes at an average grade of 2.40 g/t Au in 2011.

Total measured and indicated mineral resources at Mana increased by 8% in 2012 to 48.6 million tonnes at an average grade of 1.93 g/t Au, representing 3.0 million ounces. This compares to 51.4 million tonnes at an average grade of 1.69 g/t Au for 2.8 million ounces at the end of 2011. The slight increase in ounces, despite the removal of the majority of the refractory sulphide material in the south sector, is due to the higher grade material at Kona at depth and the inclusion of the high-grade mineralization from the Fofina Zone.

Mana's 2012 inferred resources totalled 18.3 million tonnes at a grade of 3.18 g/t Au, representing 1.9 million ounces as at December 31, 2012. The higher grade is due to the inclusion of the initial in-pit resources of our high-grade Siou Sector discovered in August 2012, representing 6.7 million tonnes at a grade of 4.62 g/t Au. The decrease in the overall inferred tonnage, despite of a higher resource grade is due to the removal of most of the inferred refractory sulphide resources from the south sector deposits (Yaho, Fofina and Fobiri).

Metallurgical Tests

In 2012, metallurgical tests showed that the sulphide portions for the Fofina, Fobiri and Yaho deposits had low recoveries (20% to 48%) with CIL treatment. Consequently, SEMAFO decided to investigate other process routes such as sulphide flotation, sulphide concentrate regrinding and ultimately oxidation to seek better gold recoveries. Although a combination of ultrafine grinding followed by oxidation at Fofina significantly improved recoveries (88%), the tests also indicate that the capital expenditures and consumable costs required to achieve optimal results are not justified at current gold prices.

The Corporation, however, is currently conducting heap leaching tests on the oxide portion of the Yaho deposit to seek better economics for the south sector. The results should be available during the third quarter of 2013.

Samira Hill, Niger and Kiniero, Guinea

Management will continue to focus on quality ounces and review strategic alternatives for the Samira Hill and Kiniero assets. SEMAFO will prioritize the development of its flagship Mana project with particular emphasis on the new high-grade Siou Sector. The Corporation expects to add the Siou Sector to reserves during the third quarter of 2013 and begin mining the area in late 2014 or early 2015.

At Samira Hill, following the downward revision of the reserves and resources at Samira Hill, as at December 31, 2012, total mineral reserves and resources stand at 19.6 million tonnes at 1.36 g/t Au for 857,300 ounces, compared to 38.7 million tonnes at 1.43 g/t Au for 1.8 million ounces in 2011.

At Kiniero, as at December 31, 2012, mineral reserves and resources totalled 12.2 million tonnes at an average grade of 2.31 g/t Au for 905,200 ounces, representing a 15% increase over 2011.

3. Exploration Programs – 2012 Reserves and Resources (continued)

Table 1

MINERAL RESERVES

Mines	Mana[1,2] Burkina Faso	Samira Hill[2,3] Niger	Kiniero[2,4] Guinea	Total
Proven Mineral Reserves				
Tonnes	12,561,600	5,237,600	1,082,300	**18,881,500**
Grade (g/t Au)	2.41	1.33	2.37	**2.11**
Ounces[5]	974,400	223,700	82,500	**1,280,600**
Probable Mineral Reserves				
Tonnes	12,510,800	2,661,400	2,628,100	**17,800,300**
Grade (g/t Au)	2.20	1.10	2.23	**2.04**
Ounces[5]	886,300	94,200	188,800	**1,169,300**
TOTAL MINERAL RESERVES				
Tonnes	25,072,400	7,899,000	3,710,400	**36,681,800**
Grade (g/t Au)	2.31	1.25	2.27	**2.08**
Ounces[5]	1,860,700	317,900	271,300	**2,449,900**

MINERAL RESOURCES

Mines	Mana Burkina Faso	Samira Hill Niger	Kiniero Guinea	Total
Measured				
Tonnes	10,022,300	6,772,100	1,660,100	**18,454,500**
Grade (g/t Au)	1.54	1.58	2.38	**1.63**
Ounces[5]	496,100	344,000	126,800	**966,900**
Indicated				
Tonnes	38,579,900	4,937,400	6,834,800	**50,352,100**
Grade (g/t Au)	2.03	1.23	2.31	**1.99**
Ounces[5]	2,521,300	195,400	507,100	**3,223,800**
TOTAL MINERAL RESOURCES				
Tonnes	48,602,200	11,709,500	8,494,900	**68,806,600**
Grade (g/t Au)	1.93	1.43	2.32	**1.89**
Ounces[5]	3,017,400	539,400	633,900	**4,190,700**
TOTAL MINERAL RESERVES AND RESOURCES				
Tonnes	73,674,600	19,608,500	12,205,300	**105,488,400**
Grade (g/t Au)	2.06	1.36	2.31	**1.96**
Ounces[5]	4,878,100	857,300	905,200	**6,640,600**
INFERRED MINERAL RESOURCES				
Tonnes	18,252,800	10,161,600	7,929,400	**36,343,800**
Grade (g/t Au)	3.18	1.49	2.55	**2.57**
Ounces[5]	1,867,400	487,600	649,400	**3,004,400**

1 The Corporation indirectly owns 90% of SEMAFO Burkina, which directly holds the interest in the Mana Mine reserves and resources.
2 Mineral reserves and resources were estimated using a gold price of US$1,300 and US$1,600 per ounce, respectively.
3 Mineral reserves and resources at the Samira Hill Mine represent the combined reserves and resources of SML and AGMDC. The Corporation indirectly owns 80% of SML.
4 The Corporation indirectly owns 85% of SEMAFO Guinée, which directly holds the interest in the Kiniero Mine reserves and resources.
5 Rounding of numbers to the nearest hundreds of tonnes may present slight differences in the figures representing the ounces contained.

3. Exploration Programs – 2012 Reserves and Resources (continued)

Table 2

MANA PROPERTY – MINERAL RESERVES AND RESOURCES (As at December 31, 2012)

DEPOSITS	DECEMBER 31, 2012								
	PROVEN RESERVES			PROBABLE RESERVES			TOTAL RESERVES		
	Tonnes	Grade (g/t Au)	Ounces	Tonnes	Grade (g/t Au)	Ounces	Tonnes	Grade (g/t Au)	Ounces
WONA-KONA	10,525,800	2.29	774,800	11,552,500	2.13	790,700	22,078,300	2.21	1,565,500
NYAFÉ	270,300	5.71	49,600	4,600	4.67	700	274,900	5.69	50,300
FOFINA	1,684,500	2.64	143,100	953,700	3.10	94,900	2,638,200	2.81	238,000
ROMPAD	81,000	2.64	6,900	0	0.00	0	81,000	2.64	6,900
TOTAL MANA	**12,561,600**	**2.41**	**974,400**	**12,510,800**	**2.20**	**886,300**	**25,072,400**	**2.31**	**1,860,700**

DEPOSITS	DECEMBER 31, 2012								
	MEASURED RESOURCES			INDICATED RESOURCES			TOTAL RESOURCES		
	Tonnes	Grade (g/t Au)	Ounces	Tonnes	Grade (g/t Au)	Ounces	Tonnes	Grade (g/t Au)	Ounces
WONA-KONA	1,903,600	1.86	113,700	23,925,200	2.45	1,884,300	25,828,800	2.41	1,998,000
NYAFÉ	589,800	4.36	82,700	586,900	4.30	81,100	1,176,700	4.33	163,800
FOFINA	958,400	2.00	61,500	1,346,500	3.32	143,900	2,304,900	2.77	205,400
YAHO	5,832,500	0.98	183,500	12,544,800	0.99	399,700	18,377,300	0.99	583,200
FILON 67	58,100	3.61	6,700	23,900	3.79	2,900	82,000	3.66	9,600
FOBIRI	679,900	2.20	48,000	152,600	1.91	9,400	832,500	2.14	57,400
TOTAL MANA	**10,022,300**	**1.54**	**496,100**	**38,579,900**	**2.03**	**2,521,300**	**48,602,200**	**1.93**	**3,017,400**

DEPOSITS	DECEMBER 31, 2012 INFERRED		
	Tonnes	Grade (g/t Au)	Ounces
WONA-KONA	6,714,000	2.44	526,900
NYAFÉ	365,600	4.26	50,000
FOFINA	713,200	3.60	82,600
YAHO	1,430,100	1.64	75,500
FILON 67	27,400	3.79	3,300
FOBIRI	1,182,400	2.16	81,900
MAOULA	1,089,400	1.37	48,000
SIOU	6,730,700	4.62	999,200
TOTAL MANA	**18,252,800**	**3.18**	**1,867,400**

We are presenting 100% of the reserves and resources of the mines in the above tables. Regarding open pit reserves, cut-off grades are established with the Ultimate Pit software in consideration of the rock type and haulage distance.

The mineral reserves and resources were estimated as at December 31, 2012 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"). Mineral reserves and resources estimates for the Mana Mine were carried out internally under the guidance of Michel Crevier P.Geo MScA, Vice-President Exploration and Mine Geology and SEMAFO's Qualified Person who has reviewed this press release for accuracy and compliance.

4. Consolidated Results and Mining Operations

	2012	2011	Variation
Operating Highlights			
Gold ounces produced	**236,100**	250,100	(6%)
Gold ounces sold	**231,500**	249,600	(7%)
(in thousands of dollars, except amounts per ounce, per tonne and per share)			
Revenues – Gold sales	**388,501**	395,916	(2%)
Mining operating expenses (excluding government royalties)	**164,393**	150,535	9%
Government royalties	**19,979**	19,857	1%
Write-off of property, plant and equipment	**16,998**	–	–
Impairment of property, plant and equipment	**60,000**	–	–
Operating income	**34,626**	154,164	(78%)
Loss on sale of current investment	**24,297**	–	–
Income tax expense	**18,392**	29,869	(38%)
Net income (loss) attributable to equity shareholders	**(6,604)**	111,759	(94%)
Cash flow from operating activities[1]	**155,406**	171,875	(10%)
Basic earnings (loss) per share	**(0.02)**	0.41	(105%)
Diluted earnings (loss) per share	**(0.02)**	0.40	(105%)
Operating cash flow per share[2]	**0.57**	0.63	(10%)
Adjusted operating income[3]	**111,624**	154,164	(28%)
Adjusted net income attributable to equity shareholders[3]	**75,314**	111,759	(33%)
Adjusted basic earnings per share[3]	**0.28**	0.41	(32%)
Average realized selling price (per ounce)	**1,678**	1,586	6%
Cash operating cost (per ounce produced)[4]	**704**	591	19%
Cash operating cost (per tonne processed)[4]	**35**	35	–
Total cash cost (per ounce sold)[5]	**793**	677	17%
Total cash margin (per ounce sold)[6]	**885**	909	(3%)

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

2 Operating cash flow per share is a non-IFRS financial performance measure with no standard definition under IFRS. See the "Non-IFRS financial performance measures'' section of this MD&A.

3 Adjusted operating income, adjusted net income attributable to equity shareholders and adjusted basic earnings per share are non-IFRS financial performance measures with no standard definition under IFRS. In 2012, the adjusted operating income excludes the write-off of property, plant and equipment of $16,998,000 related to the underground project and $60,000,000 related to the impairment of non-financial assets of the Samira Hill Mine, while the adjusted net income attributable to equity shareholders and the adjusted basic earnings per share also exclude the loss on the sale of a current investment totalling $24,297,000, as well as the income tax expense and the non-controlling interest impact totalling $7,377,000 related to these non-recurring transactions.

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

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

6 Total cash margin is a non-IFRS financial performance measure with no standard definition under IFRS and is calculated using the average realized selling price and the total cash cost.

4. Consolidated Results and Mining Operations (continued)

2012 v. 2011

- In 2012, our gold sales totalled $388,501,000 compared to $395,916,000 in 2011. This decrease is due to lower volume sold further to reduced production as we were unable to access higher grade zones as planned at Mana due to an intense raining season, which led the processing of lower grade stockpiles and lower production in the third quarter of 2012. The 4,600-ounce variation between gold ounces sold and produced is due to an increase in the doré inventory stemming from the timing of gold shipments as the last production of the three mines could not be shipped as at December 31, 2012.
- Increased mining operation expenses in 2012 reflect a higher total cash cost per ounce sold as a result of lower recovered head grade, partially offset by lower volume sold.
- The year ended December 31, 2012 includes an impairment charge of $60,000,000. This non-cash charge was prompted by the re-assessment of future cash flows to be generated by the Samira Hill Mine following the review of technical and economical parameters. The revision takes into consideration increases in sustaining capital expenditures, consumable and operating costs as well as escalating energy costs related to the poor reliability of the Niger power grid.

  The impairment test was done at the cash generating unit (CGU) level, which is the lowest level for which identifiable cash flows are largely independent of the cash flows of the other assets. The recoverable amount is calculated using the value in use, which is the present value of the future cash flows expected to derive from our Samira Hill Mine. The pre-tax discount rate used in the calculation of the value in use is 8.5%.
- Also affecting our operating income is the write-off of property, plant and equipment associated with the conversion of the Mana underground project to a super pit project during the second quarter.
- Operating income totalled $34,626,000 in 2012 compared to $154,164,000 in 2011. In addition to the two non-recurring events previously discussed, our operating income was negatively affected by lower volume sold at a lower cash margin per ounce as a result of lower recovered head grade and by higher depreciation of property, plant and equipment due to a larger mining fleet and expanded facilities.
- Our effective tax rate surged to 197.0% in 2012 from 19.6% in 2011 and differs from the domestic tax rates applicable in the various tax jurisdictions we are subject to (26.9% in 2012 and 28.4% in 2011). The main factors explaining the increase in our effective rate are unrecorded tax benefits further to our non-cash impairment charge and the loss on the sale of our current investment.
- During the fourth quarter of 2011 and the first quarter of 2012, we made an investment in a gold production and exploration company. The investment was subject to large downward equity market changes since its initial purchase. In the second quarter of 2012, we sold this investment and recorded a non-recurring loss of $24,297,000.
- Net loss attributable to equity shareholders amounted to $6,604,000 in 2012, compared to net income attributable to equity shareholders of $111,759,000 in 2011. The variation is mainly due to non-recurring events as previously discussed.

5. Operating Income by Segment

(in thousands of dollars)	2012	2011	Variation
Mana Mine, Burkina Faso[1]	**101,609**	158,673	(36%)
Samira Hill Mine, Niger[2]	**(46,909)**	17,936	(362%)
Kiniero Mine, Guinea	**5,554**	1,356	310%
Corporate and others	**(25,628)**	(23,801)	8%
	34,626	154,164	(78%)

[1] Including the write-off of property, plant and equipment of $16,998,000 related to the conversion of the underground project in the year ended December 31, 2012.
[2] Including the impairment of property, plant and equipment of $60,000,000.

5. Operating Income by Segment (continued)

Mining Operations

Mana, Burkina Faso

	2012	2011	Variation
Operating Data			
Ore mined (tonnes)	**2,712,200**	2,321,200	17%
Ore processed (tonnes)	**2,738,000**	2,448,200	12%
Head grade (g/t)	**2.25**	2.76	(18%)
Recovery (%)	**87**	88	(1%)
Gold ounces produced	**172,700**	187,800	(8%)
Gold ounces sold	**170,800**	188,000	(9%)
Financial Data (in thousands of dollars)			
Revenues – Gold sales	**287,209**	297,673	(4%)
Mining operation expenses (excluding government royalties)	**113,789**	96,864	17%
Government royalties	**14,334**	14,420	(1%)
Depreciation of property, plant and equipment	**35,992**	25,297	42%
General and administrative	**2,279**	1,521	50%
Corporate social responsibility expenses[1]	**2,208**	898	146%
Write-off of property, plant and equipment	**16,998**	–	–
Segment operating income (loss)	**101,609**	158,673	(36%)
Statistics (in dollars)			
Average realized selling price (per ounce)	**1,682**	1,583	6%
Cash operating cost (per ounce produced)[2]	**662**	510	30%
Cash operating cost (per tonne processed)[2]	**42**	40	5%
Total cash cost (per ounce sold)[3]	**750**	592	27%
Depreciation (per ounce sold)[4]	**211**	135	56%

1 Corporate social responsibility expenses exclude contributions and projects sponsored through *Fondation SEMAFO.*

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

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

4 Depreciation per ounce sold is a non-IFRS financial performance measure with no standard definition under IFRS and represents the depreciation expense per ounce sold.

5. Operating Income by Segment (continued)

Mining Operations (continued)

Mana, Burkina Faso (continued)

2012 v. 2011

- For the year ended December 31, 2012, a total of 2,712,200 tonnes of ore and 17,023,000 tonnes of waste material were extracted from the Wona and Nyafé pits, resulting in a stripping ratio of 6.3:1. In addition, 11,574,500 tonnes of waste material were extracted from the Wona pit during the pre-stripping phase. This compares to 2,321,200 tonnes of ore and 12,655,800 tonnes of waste material extracted from the Wona and Nyafé pits for the same period in 2011, which resulted in a stripping ratio of 5.5:1. In addition, 4,586,300 tonnes of waste material were extracted from the Wona pit during the pre-stripping phase. The increase in total material mined in 2012 compared to 2011 was due to additional mining equipment to accommodate a higher strip ratio and increased mill capacity.
- The 12% increase in throughput was achieved following the commissioning of Phase IV of the plant expansion, which was completed in July 2012. The Mana processing plant achieved an all-time record by averaging over 8,500 tpd in the fourth quarter of 2012.
- The decrease in head grade when compared to 2011 reflects the impact of higher feed ore from the Wona pit, which has lower grade ore compared to the Nyafé pit which contributed to the mill feed in 2011 as well as higher throughput capacity. Our temporary inability to access higher grade zones as originally planned also negatively impacted our head grade as it resulted in the processing of lower ore grade from stockpiles.
- The decrease in gold ounces produced is a direct result of lower head grade.
- The increase in cash operating cost per tonne processed in spite of higher throughput is a direct result of a higher stripping ratio and of inflationary cost pressures within the industry, mainly for fuel, steel and reagents. The increase in cash operating cost per ounce produced is the result of a higher cash operating cost per tonne processed combined with a lower head grade.
- The surge in the depreciation cost per ounce sold is related to additional mining equipment to accommodate a higher stripping ratio and the expansion of our treatment facility.
- The construction of a 60-kilometer water pipeline was completed in September for approximately $5,750,000 less than the budgeted $30,250,000. The water pipeline will accommodate the current processing plant and should ensure adequate water supply at all times, thereby alleviating our dependency on rainfall and underground water supplies. In addition, this pipeline can also accommodate an eventual expansion of up to 14,000 tpd.

Mining Equipment

As part of our efforts to continuously optimize operational efficiencies and potential savings, we proceeded with the acquisition of a new mining fleet, now comprising ten 100-tonne trucks, two excavators and auxiliary equipment estimated at $25 million. The complete new fleet is now in operation.

5. Operating Income by Segment (continued)

Mining Operations (continued)

Samira Hill, Niger

	2012	2011	Variation
Operating Data			
Ore mined (tonnes)	**1,844,500**	1,369,700	35%
Ore processed (tonnes)	**1,720,400**	1,449,700	19%
Head grade (g/t)	**1.66**	1.29	29%
Recovery (%)	**55**	78	(29%)
Gold ounces produced	**49,800**	46,700	7%
Gold ounces sold	**47,700**	46,000	4%
Financial Data (in thousands of dollars)			
Revenues – Gold sales	**79,506**	73,798	8%
Mining operation expenses (excluding government royalties)	**41,214**	38,120	8%
Government royalties	**4,476**	4,092	9%
Depreciation of property, plant and equipment	**19,078**	11,743	62%
General and administrative	**1,425**	1,605	(11%)
Corporate social responsibility expenses[1]	**222**	302	(26%)
Impairment of property, plant and equipment	**60,000**	–	–
Segment operating income	**(46,909)**	**17,936**	(362%)
Statistics (in dollars)			
Average realized selling price (per ounce)	**1,667**	1,604	4%
Cash operating cost (per ounce produced)[2]	**867**	811	7%
Cash operating cost (per tonne processed)[2]	**26**	26	–
Total cash cost (per ounce sold)[3]	**958**	918	4%
Depreciation (per ounce sold)[4]	**400**	255	57%

1 Corporate social responsibility expenses exclude contributions and projects sponsored through *Fondation SEMAFO.*

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

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

4 Depreciation per ounce sold is a non-IFRS financial performance measure with no standard definition under IFRS and represents the depreciation expense per ounce sold.

5. Operating Income by Segment (continued)

Mining Operations (continued)

Samira Hill, Niger (continued)

2012 v. 2011

- In 2012, 1,844,500 tonnes of ore and 4,648,400 tonnes of waste material were extracted from the Libiri B, Libiri NW, Samira Main and Boulon Jounga II pits, resulting in a stripping ratio of 2.5:1. In addition, 4,645,300 tonnes of waste material were extracted from different pits during the pre-stripping phase. For the corresponding period in 2011, 1,369,700 tonnes of ore and 3,350,900 tonnes of waste material were extracted primarily from the Libiri B and Samira Main pits, for a stripping ratio of 2.4:1. In addition, 7,482,600 tonnes of waste material were extracted from the Libiri B, Libiri NW and Samira Main pits during the pre-stripping phase in 2011.
- Throughput in 2012 increased by 19% compared to 2011. This variation is mainly due to the processing of saprolite ore sourced from the Libiri B and Libiri NW pits as opposed to the processing of harder ore from stockpiles in 2011, combined with efficiency improvement at the plant in the last year.
- The 29% increase in head grade is mainly due to the processing of sulphide ore in greater proportion from the Samira Main pit.
- The recovery rate decreased from 78% in 2011 to 55% in 2012 due to the processing of sulphide ore from the Samira Main Pit in higher percentages.
- The increase in gold ounces produced in 2012 compared to 2011 is a direct result of higher throughput, despite a slightly lower recovered grade.
- The cash operating cost per ounce produced in 2012 increased in comparison to 2011, reflecting the lower recovered grade.
- The depreciation per ounce sold increased in 2012 compared to 2011. This variation is mainly due to the depreciation of stripping costs of the Samira Main and Libiri NW pits as these pits contributed to the 2012 mill feed in higher percentages than in 2011.
- The year ended December 31, 2012 includes an impairment charge of $60,000,000. This non-cash charge was prompted by the re-assessment of future cash flows to be generated by the mine following the review of technical and economical parameters. The revision takes into consideration increases in sustaining capital expenditures, consumable and operating costs as well as escalating energy costs related to the poor reliability of the Niger power grid.
- In 2013, we will review our strategic alternatives for this property.

5. Operating Income by Segment (continued)

Mining Operations (continued)

Kiniero, Guinea

	2012	2011	Variation
Operating Data			
Ore mined (tonnes)	**74,500**	266,800	(72%)
Ore processed (tonnes)	**364,000**	316,000	15%
Head grade (g/t)	**1.42**	1.61	(12%)
Recovery (%)	**90**	93	(3%)
Gold ounces produced	**13,600**	15,600	(13%)
Gold ounces sold	**13,000**	15,600	(17%)
Financial Data (in thousands of dollars)			
Revenues – Gold sales	**21,786**	24,445	(11%)
Mining operation expenses (excluding government royalties)	**9,390**	15,551	(40%)
Government royalties	**1,169**	1,345	(13%)
Depreciation of property, plant and equipment	**3,620**	3,825	(5%)
General and administrative	**1,076**	1,756	(39%)
Corporate social responsibility expenses	**977**	612	60%
Segment operating income	**5,554**	1,356	310%
Statistics (in dollars)			
Average realized selling price (per ounce)	**1,676**	1,567	7%
Cash operating cost (per ounce produced)[1]	**648**	898	(28%)
Cash operating cost (per tonne processed)[1]	**26**	43	(40%)
Total cash cost (per ounce sold)[2]	**753**	1,000	(25%)
Depreciation (per ounce sold)[3]	**278**	245	13%

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

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

[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.

2012 v. 2011

- Treatment facility resumed in April 2012 while mining operations gradually and partially resumed in the third quarter of 2012.
- The variation in head grade is due to the processing of low grade stockpiles compared to ore sourced from the pits in 2011.
- The variation in production is mainly due to an increase of approximately 1,300 ounces of gold in circuit inventory at the end of 2012.
- The cash operating cost per tonne processed was positively impacted by the processing of low grade stockpiles, previously accounted for as waste material.
- In 2013, we will review our strategic alternatives for this property.

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

General and Administrative Expenses

(in thousands of dollars)	2012	2011
Corporate expenses	**20,054**	17,342
Sites – Administrative	**4,780**	4,882
	24,834	22,224

General and administrative expenses totalled $24,834,000 for the year ended December 31, 2012, compared to $22,224,000 in 2011. The increase is essentially due to a special compensation arrangement with the former President and Chief Executive Officer. A portion of the benefit agreement representing $1,980,000 (2011: nil) was recorded in general and administrative expenses while $720,000 was recorded as a share-based compensation expense.

Corporate Social Responsibility Expenses

For the year ended December 31, 2012, corporate social responsibility expenses totalled $5,377,000 (2011: $3,393,000), including contributions of $1,970,000 (2011: $1,581,000) made to *Fondation SEMAFO,* while contributions to SEMAFO Energy totalled $3,082,000 (2011: $1,234,000). The residual amounts were disbursed in support of various local initiatives.

The SEMAFO Energy initiative began in 2011 and was born out of our corporate social responsibility program and our desire to assist West African countries to identify and generate new sources of energy. The Corporation's commitments in this regard have all but been fulfilled and it expects to conclude any outstanding matters and cease funding in 2013.

Share-based Compensation

For the year ended December 31, 2012, our share-based compensation expenses amounted to $3,046,000 compared to $4,533,000 for the same period in 2011. Our share-based compensation expenses included a $1,415,000 charge (2011: $3,443,000) related to our stock option plans and an expense of $1,631,000 (2011: $1,090,000) for our Restricted Share Unit Plan ("Unit Plan"). The $1,631,000 expense related to the Unit Plan is comprised of a $4,168,000 expense for restricted share units granted and a $2,537,000 credit due change in the fair value of our share price. The decrease in our stock option plans expenses in 2012 compared to 2011 was the result of a significant decrease in the number of options granted under the stock option plans further to the implementation of the Unit Plan. The increase in our Unit Plan expense is due to a higher number of restricted share units granted further to the 2012 grant, combined with the special compensation arrangement with the former President and Chief Executive Officer totalling $720,000 (2011: nil).

Finance Costs

In 2012, finance costs amounted to $2,023,000 compared to $1,728,000 in 2011. The increase in finance costs is mainly related to higher accretion and change in fair value expenses incurred further to the modification of the repayment schedule of the advance payable to the Republic of Niger, offset by lower interest expense on long-term debt as a result of the full repayment of our $45,000,000 term facility on September 30, 2011. In addition to payments made during the second and the fourth quarter of 2012 totalling $2,000,000, a final payment of $1,007,000 is scheduled to be made on December 31, 2013 to settle this advance.

Income Tax Expense

Our effective tax rate surged to 197.0% in 2012 from 19.6% in 2011 and differs from the domestic tax rates applicable in the various tax jurisdictions we are subject to (26.9% in 2012 and 28.4% in 2011). The main factors explaining the increase in our effective rate are unrecorded tax benefits further to our non-cash impairment charge and the loss on the sale of our current investment.

In December 2012, we received a tax assessment from the Burkinabe tax authorities covering the years 2009 to 2011 totalling $21,300,000 including $8,000,000 in penalties. The assessment covers four items: value added tax ("VAT") on interest expenses and management fees, insufficient withholding taxes paid related to non-resident service providers, corporate income tax adjustments as well as capital income tax.

Although we recognized that VAT, which is recoverable, should have been paid on interest expense and management fees, we believe that the elements covered by the tax assessment other than the VAT are not applicable according to our mining agreement with the Government of Burkina Faso. Accordingly, we are vigorously defending our position and have filed a submission to the Burkinabe tax authorities. We have exercised accounting judgment and have recorded $2,000,000 in our income tax expense.

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

Comprehensive Income (Loss) Attributable to Non-Controlling Interests

Non-controlling interests (in thousands of dollars)	2012	2011
Government of Burkina Faso – 10% in SEMAFO Burkina Faso S.A.	**8,399**	11,706
Government of Niger – 20% in Société des Mines du Liptako (SML) S.A.	**(9,233)**	765
Government of Guinea – 15% in SEMAFO Guinée S.A.	**(1,618)**	(1,471)
	(2,452)	11,000

The non-controlling interests are directly linked to our subsidiaries' net income (loss). For the year ended December 31, 2012, it includes a reduction of $1,402,000 (net of tax) related to the write-off of property, plant and equipment in Burkina Faso further to the conversion of the Mana underground project to a super pit project, in addition to a reduction of $9,505,000 (net of tax) related to the impairment of non-financial assets of Samira Hill Mine subsequent to the impairment testing of the CGU.

7. Other Comprehensive Income (Loss)

For the year ended December 31, 2012, other comprehensive loss amounted to $5,686,000 (2011: $2,794,000), which comprised of an other comprehensive loss of $8,480,000 (2011: nil) related to a decrease in fair value of our investment in GoviEx, net of tax impact of $1,320,000 (2011: nil). It also included an other comprehensive gain of $2,794,000 (2011: loss of $2,794,000) due to a decrease in the fair value of our current investment of $21,503,000 (2011: $2,794,000), which was sold during the second quarter of 2012, and due to the reclassification to net loss of $24,297,000 (2011: nil) of accumulated other comprehensive loss from the sale of our current investment.

8. Cash Flow

The following table summarizes our cash flow activities:

Cash flow (in thousands of dollars)	2012	2011
Operations	**155,406**	171,875
Working capital items	**(750)**	(33,828)
Operating activities	**154,656**	138,047
Financing activities	**(13,181)**	(13,357)
Investing activities	**(179,659)**	(167,554)
Effect of exchange rate changes on cash and cash equivalents	**(1,078)**	1,138
Change in cash and cash equivalents during the period	**(39,262)**	(41,726)
Cash and cash equivalents – beginning of period	**178,713**	220,439
Cash and cash equivalents – end of period	**139,451**	178,713

8. Cash Flow (continued)

Operating

Our primary ongoing source of liquidity is from our operating cash flows. In 2012, operating activities, before working capital items, generated cash flows of $155,406,000 despite a 7% decrease in gold ounces sold compared to 2011, reflecting the lower gold sales and higher mining operating expenses. Working capital items required liquidities of $750,000 for 2012, while it required liquidities of $33,828,000 for 2011.

Further details regarding the changes in non-cash working capital items are provided in note 25 a) of our financial statements.

Financing

In 2012, cash flow used in financing activities amounted to $13,181,000 compared to $13,357,000 in 2011. During 2012, our subsidiary located in Burkina Faso declared and paid its first annual dividend, representing approximately 5% of its statutory net income. Consequently, we paid dividends of $787,000 to the Government of Burkina Faso. Other payments made during the year consist of $2,000,000 on the advance payable to the Republic of Niger and $10,709,000 for dividends paid to our equity shareholders. In 2011, the cash flow used for financing activities related mainly to the full reimbursement of $15,000,000 on our long-term debt. In addition, proceeds on issuance of share capital totalling $315,000 and $1,643,000 were received during 2012 and 2011, respectively.

Investing

During the first quarter of 2012, we made an investment of $4,813,000 in a quoted equity investment for a current investment totalling $29,902,000. In the second quarter of 2012, we sold our current investment for proceeds totalling $5,617,000.

In 2012, investments of $180,766,000 were made in property, plant and equipment, compared to investments of $145,634,000 for the same period in 2011.

Cash flow used for investments in property, plant and equipment in 2012 included: exploration expenditures of $52,037,000, expansion costs at the Mana Mine totalling $24,229,000, Mana underground project expenditures of $6,785,000, the purchase of mining equipment totalling $34,805,000, capitalized stripping costs of $33,989,000, as well as sustainable capital expenditures of $28,921,000. In 2011, liquidities of $145,634,000 were invested as follows: $48,489,000 for exploration expenditures, $14,883,000 for expansion related costs at the Mana Mine, $10,395,000 for the underground at Mana, $28,415,000 for mining equipment, $23,622,000 for stripping costs as well as $19,830,000 for sustainable capital expenditures.

The decrease in restricted cash of $3,181,000 in 2011 is mainly due to the restricted cash used for the repayment of the long-term debt.

9. Financial Position

As at December 31, 2012, we maintained a strong financial position with $139,451,000 in cash and cash equivalents and no long-term debt. With our existing cash balance and forecast cash flow from operations, we are well positioned to fund all of our cash requirements for 2013, which relate primarily to the following activities:

Requirements and ongoing projects:

- Exploration programs
- Stripping activities
- Payment of dividends

(in thousands of dollars)	2012	2011
Current assets	**273,107**	331,198
Restricted cash	**923**	1,226
Property, plant and equipment	**406,030**	362,187
Investment	**19,600**	29,400
Deferred income tax assets	**3,000**	–
Total assets	**702,660**	724,011
Total liabilities	**100,819**	97,518
Equity attributable to equity shareholders	**587,563**	609,834
Non-controlling interest	**14,278**	16,659

As at December 31, 2012, our total assets amounted to $702,660,000 compared to $724,011,000 as at December 31, 2011. We held cash and cash equivalents of $139,451,000 as at December 31, 2012 compared to $178,713,000 as at December 31, 2011. The remaining portion of our asset base is primarily comprised of property, plant and equipment, reflecting the capital intensive nature of our business and the increase in capital expenditure in the year ended December 31, 2012 compared to the same period in 2011. Higher property, plant and equipment reflects investments made to support our expansion phase, despite the write-off of property, plant and equipment of $16,998,000 as a result of the conversion of our Mana underground mining operations to a super pit scenario and the impairment of property, plant and equipment of $60,000,000 at our Samira Hill Mine following the review of our estimates.

As at December 31, 2012, our liabilities totalled $100,819,000, which is mainly comprised of trade payables and accrued liabilities and income tax payable.

10. 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 consolidated statement of income or other comprehensive income. These categories are: loans and receivables, available-for-sale financial assets and liabilities at amortized cost.

Loans and receivables include:

- Cash and cash equivalents
- Restricted cash
- Gold trade receivables
- Other receivables (excluding VAT)

Available-for-sale financial assets include:

- Investment (current) (only for 2011 comparative figures)
- Investment in GoviEx

Financial liabilities at amortized cost include:

- Trade payable and other financial liabilities
- Dividend payable
- Advance payable

Financial risk factors

The Corporation's activities are exposed to financial risks: market risks, credit risk and liquidity risk.

A. Market risks

i) Fair value

The Corporation considers that the carrying amount of all its financial liabilities at amortized cost in its financial statements approximates its fair value, including the advance payable which is considered to approximate its fair value given its short-term maturity date. 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), restricted cash, trade payable and other financial liabilities, dividend payable and advance payable.

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 liabilities, either directly or indirectly
- Level 3 includes inputs for the assets or liabilities that are not based on observable market data

The investment in GoviEx, a private company, is included in investment and is valued at a fair value of $19,600,000 as at December 31, 2012 (2011: $29,400,000). The Corporation estimates the fair value of the investment in GoviEx using the most recent available information on this private equity investment. Accordingly, this investment is classified as a level 3 financial instrument according to the Corporation's fair value hierarchy as it is not based on observable market data. Should the most recent available information not be deemed appropriate to adequately determine the fair value of the investment in GoviEx, management will determine the fair value of this investment through the application of a market approach utilizing the average variation of the share price calculated from guidelines of public companies or stock market index for a given period. During the year ended December 31, 2012, the Corporation recorded an other comprehensive loss of $8,480,000 (2011: nil), net of tax impact totalling $1,320,000 (2011: nil), based on the Corporation's estimates determined using the market approach valuation technique.

In 2011, the Corporation made an investment of $25,101,000 in a quoted equity investment and was classified as Level 1. During 2012, the Corporation made a further investment of $4,813,000 for a total current investment of $29,914,000. The Corporation sold this current investment in 2012 for proceeds totalling $5,617,000, realizing a loss of $24,297,000. The Corporation recorded in 2011 and 2012 a loss in the statement of other comprehensive loss of respectively $2,794,000 and $21,503,000 as a result of the decrease in the fair value of the current investment. The Corporation reclassified these losses to net loss following the sale of this investment.

There were no transfers between Level 1, Level 2 and Level 3 in the years ended December 31, 2011 and 2012.

10. Financial Instruments (continued)

Financial risk factors (continued)

A. Market risks (continued)

ii) Interest rate risk

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 payable is non-interest bearing and therefore bears no interest rate risk.

iii) Foreign exchange risk

The operations of the Corporation in West Africa are subject to currency fluctuations and such fluctuations may materially affect the financial position and results of the Corporation. Gold is currently sold in US dollars and although the majority of the costs of the Corporation are also in US dollars, certain costs are incurred in other currencies. The appreciation of non-US dollar currencies against the US dollar can increase the cost of exploration and production in US dollar terms. 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, trade payables and other financial liabilities and dividend payable in currencies other than its functional currency. The Corporation is thus exposed to foreign exchange risk.

iv) Equity price risk

The Corporation is exposed to equity price risk for its investments classified as available-for-sale financial assets. Equity price risk is the risk that the fair value of a financial instrument varies due to equity market changes.

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 and gold trade receivables and other 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 A+, and with banks in Africa, which have no credit rating. The Corporation only performs transactions with a single highly rated counterparty for the sale of gold. The Corporation has receivables from different governments in West Africa and receivables from a sales agent.

C. Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due.

11. Contractual Obligations

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

The liability for asset retirement obligations as at December 31, 2012 was $10,375,000 (2011: $8,505,000). The estimated undiscounted value of this liability was $12,752,000 (2011: $10,609,000). These disbursements are expected to be made during the years 2013 to 2021. An accretion expense component of $596,000 (2011: $507,000) has been charged to operations in finance costs in 2012 to reflect an increase in the carrying amount of the asset retirement obligation which has been determined using a weighted average discount rate of 7% (2011: 7%).

Government Royalties and Development Taxes
In Burkina Faso, gold spot prices lower or equal to $1,000 per ounce are subject to a royalty rate of 3%, a 4% rate applies for spot prices between $1,000 and $1,300 per ounce, and a 5% royalty rate is applied on all shipments with a gold spot price greater than $1,300 per ounce.

In 2012, the Corporation was subject to a royalty rate of 5%, which was calculated using the retail market value of gold ounces sold at the time of shipment. In 2012, government royalties amounting to $14,334,000 (2011: $14,420,000) were paid to the Government of Burkina Faso.

The Corporation is subject to a royalty rate of 5.5% of the market value of gold ounces sold originating from the Samira Hill Mine payable to the Republic of Niger. In 2012, government royalties amounting to $4,476,000 (2011: $4,092,000) were paid to the Government of Niger.

The Corporation is subject to a royalty rate of 5% of the market value of gold ounces sold originating from the Kiniero Mine payable to the Republic of Guinea. In addition, the Corporation has to invest 0.4% of its gold sales in local development projects. In 2012, government royalties amounting to $1,169,000 (2011: $1,345,000) were paid to the Government of Guinea.

Net Smelter Royalty – Samira Hill Mine
Further to the acquisition from Etruscan Resources Inc. ("Etruscan") of their minority interest in the subsidiary operating the Samira Hill Mine located in Niger, the Corporation is subject to a 1.5% net smelter royalty. The royalty comes into effect after the mine has produced 750,000 ounces, calculated as from July 1, 2009. Since July 1, 2009, the Samira Hill Mine has produced 176,400 ounces. The Corporation has been granted a right of first refusal should Etruscan decide to sell this royalty.

Purchase Obligations
As at December 31, 2012, the purchase commitments totalled $7,139,000. In addition, on October 1, 2011, the Corporation entered into an agreement with National Electricity Company Sonabel, in Burkina Faso, according to which the Corporation will advance $9,500,000 for the construction of a 73-kilometer high-voltage transmission line. This amount is reimbursable to the Corporation by Sonabel over an eight-year period following commissioning. As at December 31, 2012, no amounts have been advanced to Sonabel with respect to this project.

Payments to Maintain Mining Rights
In the normal course of business, in order to obtain and maintain all the advantages of our mining permits, we must commit to invest a specific amount in exploration and development on the permits during their validity period. Moreover, we must make annual payments in order to maintain certain property titles. As at December 31, 2012, we were in compliance in all material respect with the obligations related to the ownership of our permits.

12. Significant Accounting Policies

The Corporation established its accounting policies and methods used in the preparation of its audited consolidated financial statements for the year ended December 31, 2012 in accordance with IFRS. See Note 3 to the Corporation's 2012 annual audited consolidated financial statements for more information about the significant accounting policies used to prepare the financial statements.

13. Critical Accounting Estimates and Judgements

The preparation of the Corporation's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. The estimates and assumptions that have a significant risk of causing material adjustments to the Corporation's financial statements 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 Institutes 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.

Impairment of non-financial assets

Assets are reviewed for an indication of impairment at each 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. This determination requires significant judgment. Factors which 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.

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

The fair values are 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 fair values of non-financial assets to their carrying values. The Corporation's fair value estimates are based on numerous assumptions such as, but not limited to, estimated realized gold prices, operating costs, gold recovery, mineral reserves, capital and site restoration expenditures and estimated future foreign exchange rates, and may differ from actual fair values and these differences may be significant and could have a material impact on the Corporation's financial position and result of operation. Mineral reserve estimates are the most important variable in the Corporation's fair value estimates. A decrease in the reserves 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.

In 2012, an impairment charge of $60,000,000 (2011: nil) was recorded and related to the Samira Hill Mine in Niger and was prompted by the re-assessment of future cash flows to be generated by the mine following the review of technical and economical parameters. Please refer to note 10 of the 2012 annual audited consolidated financial statements.

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 on an annual basis based on the new mineral estimates.

13. Critical Accounting Estimates and Judgements (continued)

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 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, timing change in discount rate and 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 they will incur 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. An asset retirement obligations study is actually ongoing at the Mana Mine and is expected to be completed in 2013.

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 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.

Management 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.

Measurement of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Corporation 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 in active markets.

13. Critical Accounting Estimates and Judgements (continued)

Measurement of financial instruments (continued)

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 flow.

14. New Accounting Standards Issued but not yet in Effect

The IASB issued or amended the following standards which are relevant but have not yet been adopted by the Corporation: IFRS 9, *Financial Instruments*; IFRS 10, *Consolidated Financial Statements*; IFRS 11, *Joint Arrangements*; IFRS 12, *Disclosure of Interests in Other Entities*; IFRS 13, *Fair Value Measurement*; amended IAS 27, *Separate Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures*; and IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mining*. Each of the new standards or amendments is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, except for IFRS 9, *Financial Instruments,* which is effective for annual periods beginning on or after January 1, 2015. Also, there were amendments to IAS 1*, Presentation of Financial Statements* effective for annual periods beginning on or after July 1, 2012.

The following is a brief summary of the new standards or amendments:

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

IFRS 9 was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple categories and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), for debt instruments with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they are largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. We are currently assessing the impact of adopting IFRS 9 on our consolidated financial statements.

IFRS 10, *Consolidated Financial Statements* ("IFRS 10")

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. We have assessed that the impact of adopting IFRS 10 on our consolidated financial statements is not significant.

IFRS 11, *Joint Arrangements* ("IFRS 11")

IFRS 11 supersedes IAS 31, *Interest in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, and requires a single method to account for interests in jointly controlled entities. We have assessed that the impact of adopting IFRS 11 on our consolidated financial statements is not significant.

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose entities and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. We have assessed that the impact of adopting IFRS 11 on our consolidated financial statements is not significant.

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

IFRS 13, *Fair Value Measurement* ("IFRS 13")

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures on fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. We are currently assessing the impact of adopting IFRS 13 on our consolidated financial statements.

IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* ("IFRIC 20")

IFRIC 20 was issued in October 2011. It provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when one of the two benefits accrue to the entity from the stripping activity: useable ore that can be used to produce inventory or improved access to further quantities of material that will be mined in future periods. We are currently assessing the impact of adopting IFRIC 20 on our consolidated financial statements.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, *Separate Financial Statements* ("IAS 27R"), and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 27R addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13. We have assessed that the impact of these amendments on our consolidated financial statements is not significant.

Moreover, amendments to IAS 1, *Presentation of Financial Statements* have been made to require entities to group items within other comprehensive income that may be reclassified to net income.

15. Related Party Transactions

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

(in thousands of dollars)

	2012 $	2011 $
Short-term employee benefits	**4,590**	4,135
Share-based compensation	**2,403**	3,079
Long-term benefits	**1,640**	–
	8,633	7,214

In 2012, the remuneration of key management includes a special compensation arrangement with the former President and Chief Executive Officer totalling $2,700,000, which consisted of share-based compensation expense of $720,000, short-term benefits of $340,000 and long-term benefits of $1,640,000.

The Corporation has a termination agreement and change of control benefits with the President and Chief Executive Officer and the Chief Financial Officer. If any of these individuals had been terminated on December 31, 2012, the President and Chief Executive Officer would have received approximately $3,923,000 and the Chief Financial Officer approximately $828,000.

16. Risks and Uncertainties

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

Financial Risks

Fluctuation in Gold Prices

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

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

Fluctuation in Petroleum Prices

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

Exchange Rate Fluctuations

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

Access to Capital Markets

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

Operational Risks

Uncertainty of Reserves and Resource Estimates

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

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

16. Risks and Uncertainties (continued)

Operational Risks (continued)

Production and Operating Cash Cost

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

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

Nature of Mineral Exploration and Mining

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

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

Depletion of our Mineral Reserves

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

Water Supply

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

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

The exploration and development of mineral deposits is dependent on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinant susceptible to affect our capital and 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.

16. Risks and Uncertainties (continued)

Operational Risks (continued)

Availability of Infrastructure and Fluctuation in the Price of Energy and Other Commodities (continued)

More particularly, Sonabel, the National Electricity Company of Burkina Faso, is responsible for the construction of the 73-kilometer high-voltage transmission line which will connect our Mana mine to the National power grid. Accordingly, we cannot predict with certainty when the line will be built, commissioned and the extent of its reliability. Any delay in the construction or commissioning or regarding the reliability of such Sonabel power line could impair our ability to realize anticipated savings at Mana.

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

Licenses and Permits

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

Political Risk

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

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

The possibility that a future government in any of our host countries 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 these or neighboring countries.

Title Matters

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

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.

16. Risks and Uncertainties (continued)

Operational Risks (continued)

Suppliers and Outside Contractors Risk (continued)

Additionally, a significant portion of our operations in Niger continues to be conducted by contractors. As a result, our operations are subject to a number of risks, some of which are outside our control, including:

- negotiating agreements with contractors on acceptable terms
- the inability to replace a contractor and its operating equipment in the event that either party terminates the agreement
- reduced control over such aspects of operations that are the responsibility of the contractor
- failure of a contractor to perform under our contractual arrangement
- interruption of operations in the event that a contractor ceases its business due to insolvency or other events
- failure of a contractor to comply with applicable legal and regulatory requirements, to the extent that it is responsible for such compliance
- problems of a contractor with managing its workforce, labor unrest or other employment issues.

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

Competition

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

Qualified and Key Personnel

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

Labour and Employment Relations

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

Environmental Risks, Hazards and Costs

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

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

16. Risks and Uncertainties (continued)

Operational Risks (continued)

Insufficient Insurance

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

Resource Nationalism

As African governments continue to struggle with deficits and depressed economies, the ongoing strength in gold price has resulted in the gold mining sector being targeted to raise revenues. Governments are continually assessing the terms for a mining company to exploit resources in their country. Burkina Faso and Guinea have recently introduced proposed changes to their respective mining regimes that reflect increased government control over mining operations and include changes affecting taxation, licensing, requirements for employments of local personnel or contractors and other benefits to be provided to local residents. If translated into applicable law, the trend in resource nationalism could materially adversely affect our financial condition and results of operation.

Surrounding Communities Relations

Natural resources companies face increasingly public scrutiny of their activities. We are under pressure to demonstrate that, as we seek to generate satisfactory returns to shareholders, other stakeholders including local governments and the communities surrounding our mines in the countries where we operate 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, Niger and Guinea may be subject to the rights or asserted rights of various community stakeholders. Moreover, artisanal miners may make use of some or all of our properties which would interfere with exploration and development activities on such properties.

Reliance on Information Technology Systems

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

Litigation

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

Anti-corruption Laws

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

17. Quarterly Information (unaudited, in accordance with IFRS)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Year 2012	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Year 2011
Results and Financial Position (in thousands of dollars, except for amounts per share)										
Revenues – Gold sales	100,401	98,376	79,419	110,305	**388,501**	79,367	100,398	102,297	113,854	**395,916**
Operating income (loss)	38,173	12,109	12,399	(28,055)	**34,626**	25,370	40,590	40,756	47,448	**154,164**
Net income (loss)	31,471	(16,480)	7,974	(32,021)	**(9,056)**	20,392	32,851	31,320	38,196	**122,759**
Attributable to:										
Equity shareholders	28,122	(17,544)	7,974	(25,156)	**(6,604)**	18,169	30,631	29,682	33,277	**111,759**
Non-controlling interests	3,349	1,064	–	(6,865)	**(2,452)**	2,223	2,220	1,638	4,919	**11,000**
Basic net earnings (loss) per share	0.10	(0.06)	0.03	(0.09)	**(0.02)**	0.07	0.11	0.11	0.12	**0.41**
Diluted net earnings (loss) per share	0.10	(0.06)	0.03	(0.09)	**(0.02)**	0.07	0.11	0.11	0.12	**0.40**
Cash flow from operating activities[1]	40,196	41,791	24,855	48,564	**155,406**	31,220	43,191	43,139	54,325	**171,875**

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

17. Quarterly Information (continued) (unaudited, in accordance with IFRS)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Year 2012	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Year 2011
CONSOLIDATED										
Operating Data										
Gold ounces produced	60,900	60,500	52,300	62,400	**236,100**	60,000	63,800	61,500	64,800	**250,100**
Gold ounces sold	58,700	60,900	47,700	64,200	**231,500**	56,700	66,100	59,600	67,200	**249,600**
Financial Data										
(in thousands of dollars)										
Revenues – Gold sales	100,401	98,376	79,419	110,305	**388,501**	79,367	100,398	102,297	113,854	**395,916**
Mining operation expenses	37,242	41,646	40,638	44,867	**164,393**	33,579	38,500	38,555	39,901	**150,535**
Government royalties	5,077	5,070	4,115	5,717	**19,979**	3,500	5,150	5,270	5,937	**19,857**
Depreciation of property, plant and equipment "PP&E"	12,121	15,257	13,331	18,539	**59,248**	8,147	9,726	10,997	12,340	**41,210**
General and administrative	6,319	5,435	5,918	7,162	**24,834**	5,545	5,382	5,263	6,034	**22,224**
Corporate social responsibility	691	1,514	1,655	1,517	**5,377**	970	392	484	1,547	**3,393**
Share-based compensation	778	347	1,363	558	**3,046**	2,256	658	972	647	**4,533**
Write-off of PP&E	–	16,998	–	–	**16,998**	–	–	–	–	**–**
Impairment of PP&E	–	–	–	60,000	**60,000**	–	–	–	–	**–**
Operating Income (Loss)	**38,173**	**12,109**	**12,399**	**(28,055)**	**34,626**	**25,370**	**40,590**	**40,756**	**47,448**	**154,164**
Statistics (in dollars)										
Average selling price (per ounce)	1,710	1,615	1,665	1,718	**1,678**	1,400	1,519	1,717	1,694	**1,586**
Cash operating cost (per ounce produced)[1]	619	685	836	695	**704**	579	590	637	559	**591**
Cash operating cost (per tonne processed)[1]	35	36	36	34	**35**	34	36	37	35	**35**
Total cash cost (per ounce sold)[2]	708	767	938	788	**793**	654	660	733	665	**677**
Depreciation (per ounce sold)[3]	206	251	279	289	**256**	144	147	185	184	**165**
MANA										
Operating Data										
Ore mined (tonnes)	781,400	609,200	498,000	823,600	**2,712,200**	540,600	546,900	539,000	694,700	**2,321,200**
Ore processed (tonnes)	626,800	644,200	697,700	769,300	**2,738,000**	584,800	627,200	583,100	653,100	**2,448,200**
Head grade (g/t)	2.53	2.32	2.04	2.15	**2.25**	2.68	2.80	2.62	2.93	**2.76**
Recovery (%)	87	85	85	92	**87**	90	89	85	89	**88**
Gold ounces produced	48,000	42,500	36,600	45,600	**172,700**	45,200	47,800	45,100	49,700	**187,800**
Gold ounces sold	46,300	42,700	32,800	49,000	**170,800**	42,400	50,900	43,700	51,000	**188,000**
Financial Data										
(in thousands of dollars)										
Revenues – Gold sales	79,233	69,051	54,406	84,519	**287,209**	59,302	77,282	74,674	86,415	**297,673**
Mining operation expenses	26,201	28,115	27,220	32,253	**113,789**	20,383	25,388	24,603	26,490	**96,864**
Government royalties	3,888	3,442	2,724	4,280	**14,334**	2,394	3,862	3,716	4,448	**14,420**
Depreciation of PP&E	8,007	8,959	7,825	11,201	**35,992**	5,380	6,284	5,970	7,663	**25,297**
General and administrative	726	584	517	452	**2,279**	462	302	476	281	**1,521**
Corporate social responsibility	249	361	1,173	425	**2,208**	206	121	139	432	**898**
Write-off of PP&E	–	16,998	–	–	**16,998**	–	–	–	–	**–**
Segment Operating Income	**40,162**	**10,592**	**14,947**	**35,908**	**101,609**	**30,477**	**41,325**	**39,770**	**47,101**	**158,673**
Statistics (in dollars)										
Average selling price (per ounce)	1,711	1,617	1,659	1,725	**1,682**	1,399	1,518	1,709	1,694	**1,583**
Cash operating cost (per ounce produced)[1]	562	665	808	645	**662**	475	497	563	509	**510**
Cash operating cost (per tonne processed)[1]	41	44	44	40	**42**	37	39	43	41	**40**
Total cash cost (per ounce sold)[2]	650	739	913	746	**750**	537	575	648	607	**592**
Depreciation (per ounce sold)[3]	173	210	239	229	**211**	127	123	137	150	**135**

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

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

[3] Depreciation per ounce sold is a non-IFRS financial performance measure and represents the depreciation expense per ounce sold.

17. Quarterly Information (continued) (unaudited, in accordance with IFRS)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Year 2012	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Year 2011
SAMIRA HILL										
Operating Data										
Ore mined (tonnes)	468,900	465,500	349,700	560,400	**1,844,500**	176,100	346,200	332,700	514,700	**1,369,700**
Ore processed (tonnes)	422,600	414,400	425,200	458,200	**1,720,400**	300,100	321,900	394,000	433,700	**1,449,700**
Head grade (g/t)	1.37	1.87	1.44	1.96	**1.66**	1.34	1.14	1.56	1.13	**1.29**
Recovery (%)	70	57	53	45	**55**	75	88	60	93	**78**
Gold ounces produced	12,900	13,800	10,900	12,200	**49,800**	9,800	10,600	11,200	15,100	**46,700**
Gold ounces sold	12,400	14,400	10,900	10,000	**47,700**	9,800	10,100	11,300	14,800	**46,000**
Financial Data										
(in thousands of dollars)										
Revenues – Gold sales	21,168	23,132	18,193	17,013	**79,506**	13,828	15,277	19,629	25,064	**73,798**
Mining operation expenses	10,266	10,977	10,723	9,248	**41,214**	8,543	8,563	9,950	11,064	**38,120**
Government royalties	1,189	1,299	1,028	960	**4,476**	764	857	1,110	1,361	**4,092**
Depreciation of PP&E	3,819	5,201	4,411	5,647	**19,078**	1,686	2,267	3,791	3,999	**11,743**
General and administrative	527	263	240	395	**1,425**	517	299	389	400	**1,605**
Corporate social responsibility	49	39	61	73	**222**	8	21	92	181	**302**
Impairment of PP&E	–	–	–	60,000	**60,000**	–	–	–	–	**–**
Operating Income (Loss)	**5,318**	**5,353**	**1,730**	**(59,310)**	**(46,909)**	**2,310**	**3,270**	**4,297**	**8,059**	**17,936**
Statistics (in dollars)										
Average selling price (per ounce)	1,707	1,606	1,669	1,701	**1,667**	1,411	1,513	1,737	1,694	**1,604**
Cash operating cost (per ounce produced)[1]	831	762	1,005	901	**867**	830	846	880	725	**811**
Cash operating cost (per tonne processed)[1]	26	26	25	26	**26**	25	28	26	24	**26**
Total cash cost (per ounce sold)[2]	924	853	1,078	1,021	**958**	950	933	979	840	**918**
Depreciation (per ounce sold)[3]	308	361	405	565	**400**	172	224	335	270	**255**
KINIERO										
Operating Data										
Ore mined (tonnes)	–	–	12,900	61,600	**74,500**	74,900	81,800	110,100	–	**266,800**
Ore processed (tonnes)	–	121,700	111,700	130,600	**364,000**	109,800	106,800	99,400	–	**316,000**
Head grade (g/t)	–	1.25	1.47	1.54	**1.42**	1.48	1.62	1.73	–	**1.61**
Recovery (%)	–	90	92	88	**90**	93	93	93	–	**93**
Gold ounces produced	–	4,200	4,800	4,600	**13,600**	5,000	5,400	5,200	–	**15,600**
Gold ounces sold	–	3,800	4,000	5,200	**13,000**	4,500	5,100	4,600	1,400	**15,600**
Financial Data										
(in thousands of dollars)										
Revenues – Gold sales	–	6,193	6,820	8,773	**21,786**	6,237	7,839	7,994	2,375	**24,445**
Mining operation expenses	775	2,554	2,695	3,366	**9,390**	4,653	4,549	4,002	2,347	**15,551**
Government royalties	–	329	363	477	**1,169**	342	431	444	128	**1,345**
Depreciation of PP&E	147	1,001	996	1,476	**3,620**	1,028	1,120	1,183	494	**3,825**
General and administrative	259	346	65	406	**1,076**	535	566	462	193	**1,756**
Corporate social responsibility	5	468	21	483	**977**	56	250	254	52	**612**
Segment Operating Income (Loss)	**(1,186)**	**1,495**	**2,680**	**2,565**	**5,554**	**(377)**	**923**	**1,649**	**(839)**	**1,356**
Statistics (in dollars)										
Average selling price (per ounce)	–	1,630	1,705	1,687	**1,676**	1,386	1,537	1,738	1,696	**1,567**
Cash operating cost (per ounce produced)[1]	–	632	664	645	**648**	1,026	912	760	–	**898**
Cash operating cost (per tonne processed)[1]	–	22	30	25	**26**	45	44	40	–	**43**
Total cash cost (per ounce sold)[2]	–	759	765	739	**753**	1,110	976	933	952	**1,000**
Depreciation (per ounce sold)[3]	–	263	249	284	**278**	229	220	257	353	**245**

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

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

[3] Depreciation per ounce sold is a non-IFRS financial performance measure and represents the depreciation expense per ounce sold.

18. Fourth Quarter Results

During the fourth quarter of 2012, we realized gold sales of $110,305,000 and an operating loss of $28,055,000 compared to gold sales of $113,854,000 and operating income of $47,448,000 in 2011. The decrease in our operating income during the fourth quarter of 2012 compared to the same period in 2011 is mainly due to the non-cash impairment charge of $60,000,000 at our Samira Hill mine and to a higher depreciation on property, plant and equipment due to a larger fleet and expanded facilities as well as depreciation of stripping costs. Net loss attributable to equity shareholders amounted to $25,156,000 or loss of $0.09 per share in 2012, compared to net income of $33,277,000 or $0.12 per share in 2011.

Production totalled 62,400 ounces for the fourth quarter of 2012 at a cash operating cost of $695 per ounce or $34 per tonne processed, compared to a cash operating cost of $836 per ounce or $36 per tonne processed in the third quarter of 2012, an improvement of 17% and 6%, respectively. In the fourth quarter of 2011, we produced 64,800 ounces at a cash operating cost of $559 per ounce or $35 per tonne processed.

We processed a record of 769,300 tonnes of ore at our Mana Mine during the fourth quarter of 2012, compared to 653,100 tonnes for the corresponding period in 2011 due to the Phase IV of the plant expansion. Mana's fourth-quarter production decreased by 8% to 45,600 ounces in 2012, down from 49,700 ounces of gold in 2011 due to a lower recovered grade as the Nyafé pit did not contribute to the mill feed in 2012. The reduction in recovered grade triggered the increase of our cash operating cost from $509 in 2011 to $645 in the fourth quarter of 2012.

At the Samira Hill Mine, we processed 458,200 tonnes of ore during the fourth quarter of 2012, an increase of 6% when compared to the same period in 2011. Production was lower in the fourth quarter of 2012, with 12,200 ounces compared to 15,100 ounces in 2011. This reduction is the result of a lower recovered grade due to the processing of sulphide ore from the Samira Main pit. The source of the mill feed also explains our cash operating cost per ounce produced of $901 in the fourth quarter of 2012 compared to $725 in 2011. Finally, the fourth quarter of 2012 includes an impairment charge of $60,000,000. This non-cash charge was prompted by the re-assessment of future cash flows to be generated by the mine following the review of technical and economical parameters. The revision takes into consideration increases in sustaining capital expenditures, consumable and operating costs as well as escalating energy costs related to the poor reliability of the Niger power grid.

At the Kiniero Mine, we produced 4,600 ounces in the fourth quarter of 2012, while activities remained halted during the fourth quarter of 2011.

19. Information on Outstanding Shares

As at March 20, 2013, our share capital is comprised of 273,268,185 common shares issued and outstanding.

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

The plans provide for the grant of non-transferable options for the purchase of common shares. As at March 20, 2013, stock options allowing its holders to purchase 9,446,241 common shares were outstanding.

20. Additional Information

Exchange rates are as follows:

	CAD / USD		EUR / USD	
	2012	2011	2012	2011
March 31 (closing)	**0.9991**	0.9718	**0.7500**	0.7051
June 30 (closing)	**1.0191**	0.9643	**0.7894**	0.6885
September 30 (closing)	**0.9837**	1.0389	**0.7779**	0.7436
December 31 (closing)	**0.9949**	1.0210	**0.7584**	0.7721
First quarter (average)	**1.0012**	0.9844	**0.7618**	0.7307
Second quarter (average)	**1.0122**	0.9696	**0.7802**	0.6957
Third quarter (average)	**0.9955**	0.9791	**0.7989**	0.7083
Fourth quarter (average)	**0.9917**	1.0230	**0.7718**	0.7426
Year (average)	**1.0001**	0.9890	**0.7782**	0.7193

21. Disclosure Controls and Procedures

In accordance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, an evaluation of the effectiveness of the Corporation's disclosure controls and procedures ("DC&P") and its internal control over financial reporting ("ICFR") was conducted. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that DC&P and ICFR were effective as of the year ended December 31, 2012, and that, as a result, ICFR design provides reasonable assurance that material information relating to the Corporation is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared, and the information that the Corporation must present in its annual documents, its interim documents or in other documents it files or submits under securities regulations is recorded, processed, condensed and presented within the time frames prescribed by this legislation. Furthermore, ICFR design provides reasonable assurance that the Corporation's financial information is reliable and that its financial statements have been prepared, for the purpose of publishing financial information, in accordance with IFRS. Lastly, no changes to the ICFR that have had or are likely to have a significant effect on this control mechanism were identified by management during the accounting period commencing on January 1, 2012 and ending on December 31, 2012.

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 operating costs is included in the following table:

Per ounce produced	Mana	Samira Hill	Kiniero	2012 Total
Gold ounces produced	172,700	49,800	13,600	236,100
(in thousands of dollars except per ounce)				
Mining operation expenses (relating to ounces sold)	128,123	45,690	10,559	184,372
Fixed expenses incurred during the temporary shutdown period	–	–	(775)	(775)
Government royalties and selling expenses	(15,209)	(4,787)	(1,291)	(21,287)
Effects of inventory adjustments (doré bars)	1,334	2,278	319	3,931
Operating costs (relating to ounces produced)	114,248	43,181	8,812	166,241
Cash operating cost (per ounce produced)	**662**	**867**	**648**	**704**

Per ounce produced	Mana	Samira Hill	Kiniero	2011 Total
Gold ounces produced	187,800	46,700	15,600	250,100
(in thousands of dollars except per ounce)				
Mining operation expenses (relating to ounces sold)	111,284	42,212	16,896	170,392
Fixed expenses incurred during the temporary shutdown period	–	–	(1,294)	(1,294)
Government royalties and selling expenses	(15,403)	(4,416)	(1,490)	(21,309)
Effects of inventory adjustments (doré bars)	(13)	98	(103)	(18)
Operating costs (relating to ounces produced)	95,868	37,894	14,009	147,771
Cash operating cost (per ounce produced)	510	811	898	591

22. Non-IFRS Financial Performance Measures (continued)

Cash Operating Cost (continued)

Per tonne processed	Mana	Samira Hill	Kiniero	2012 Total
Tonnes of ore processed	2,738,000	1,720,400	364,000	4,822,400
(in thousands of dollars except per ounce)				
Mining operation expenses (relating to ounces sold)	128,123	45,690	10,559	184,372
Fixed expenses incurred during the temporary shutdown period	–	–	(775)	(775)
Government royalties and selling expenses	(15,209)	(4,787)	(1,291)	(21,287)
Effects of inventory adjustments (doré bars and gold in circuit)	3,026	3,342	840	7,208
Operating costs (relating to tonnes processed)	115,940	44,245	9,333	169,518
Cash operating cost (per tonne processed)	**42**	**26**	**26**	**35**

Per tonne processed	Mana	Samira Hill	Kiniero	2011 Total
Tonnes of ore processed	2,448,200	1,449,700	316,000	4,213,900
(in thousands of dollars except per ounce)				
Mining operation expenses (relating to ounces sold)	111,284	42,212	16,896	170,392
Fixed expenses incurred during the temporary shutdown period	–	–	(1,294)	(1,294)
Government royalties and selling expenses	(15,403)	(4,416)	(1,490)	(21,309)
Effects of inventory adjustments (doré bars and gold in circuit)	2,389	(375)	(473)	1,541
Operating costs (relating to tonnes processed)	98,270	37,421	13,639	149,330
Cash operating cost (per tonne processed)	40	26	43	35

22. Non-IFRS Financial Performance Measures (continued)

Operating Cash Flow per Share

(in thousands except per share)	2012	2011
Cash flow from operating activities[1]	**155,406**	171,875
Weighted average number of outstanding common shares	**273,146**	272,609
Operating cash flow per share	**0.57**	0.63

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

23. Additional Information and Continuous Disclosure

This MD&A has been prepared as of March 20, 2013. Additional information on the Corporation is available through regular filings of press releases, financial statements and its Annual Information Form on SEDAR (www.sedar.com). These documents and other information about SEMAFO may also be found on our web site at www.semafo.com.

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 "committed", "evolve", "become", "pursuing", "growth", "ongoing", "being carried out", "move forward", "priority", "future", "will", "strategy", "opportunity", "increase", "added", "believe", "potential", "creating", "pursuit", "optimistic", "expand", "build", "objectives", "develop", "improve", "optimize", "guidance", "trends", "aim", "expected", "forthcoming", "could", "next steps", "underway", "investigate" and other similar words or expressions. Factors that could cause future results or events to differ materially from current expectations expressed or implied by the forward looking statements include the ability to deliver on our strategic focus, the ability to generate future cash flow, the ability to deliver on our strategy, the ability to bring the Siou Sector to reserves by the third quarter 2013, begin the permitting process and begin mining by the end of 2014 or early 2015, the ability to sustain operations at the Mana plant at full capacity for the next eight to ten years, the ability of the Siou Sector to reduce our operating cost, boost production and ultimately increase cash flow within the next 18 to 24 months, the ability to expand reserves and ressources and build future cash flow, the ability to complete our delineation program for Siou in the first half of 2013, the ability to achieve our annual production guidance of between 215,000 and 240,000 ounces of gold at a cash operating cost of between $855 and $905 per ounce the ability to obtain results of our heap leach tests on the oxide at Yaho in the third quarter of 2013, the ability to complete our exploration program at Siou, the ability to fund all of our cash requirements for 2013 from our cash and cash equivalents , fluctuations in the price of currencies, gold or operating costs, mining industry risks, uncertainty as to calculation of mineral reserves and resources, delays, requirements of additional financing, increase in tax or royalty rates or adoption of new interpretations related thereto, political and social stability in Africa (including our ability to maintain or renew licenses and permits) and other risks described in this MD&A and in our other documents filed from time to time with Canadian securities regulatory authorities 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.

Management's Statement of Responsibility

The consolidated financial statements of 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. All financial information in this report is consistent with the information 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, Chartered Professional Accountants, are appointed by the shareholders and conducted an audit on the Corporation's consolidated financial statements. Their 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 annually 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

Independent Auditor's Report

March 20, 2013

To the Shareholders of SEMAFO Inc.

We have audited the accompanying consolidated financial statements of SEMAFO Inc., which comprise the consolidated statement of financial position as at December 31, 2012 and 2011 and the consolidated statements of income (loss), comprehensive income (loss), 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, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA public accountancy permit No. A122718

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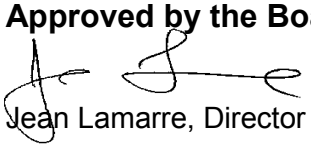
Consolidated Statement of Financial Position

(Expressed in thousands of US dollars)

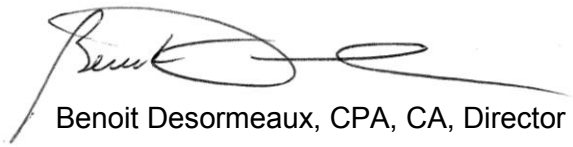
	As at December 31, 2012 $	As at December 31, 2011 $
Assets		
Current assets		
Cash and cash equivalents (note 6)	139,451	178,713
Trade and other receivables (note 7)	30,395	43,022
Investment (note 16 a)	–	22,307
Inventories (note 8)	96,829	81,639
Other current assets	6,432	5,517
	273,107	331,198
Non-current assets		
Restricted cash	923	1,226
Property, plant and equipment (note 9)	406,030	362,187
Investment (note 11)	19,600	29,400
Deferred income tax asset (note 17)	3,000	–
	429,553	392,813
Total assets	702,660	724,011
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 12)	67,020	58,010
Provisions (note 14)	2,588	–
Advance payable (note 13)	915	–
Income tax payable (note 17)	8,276	15,509
Dividends payable (note 15)	5,492	5,348
	84,291	78,867
Non-current liabilities		
Restricted share unit liabilities (note 20 b)	2,001	1,090
Advance payable (note 13)	–	2,102
Provisions (note 14)	12,487	8,505
Deferred income tax liabilities (note 17)	2,040	6,954
Total liabilities	100,819	97,518
Equity		
Equity Shareholders		
Share capital (note 15)	455,179	454,746
Contributed surplus	12,232	10,935
Accumulated other comprehensive income	–	5,686
Retained earnings	120,152	138,467
	587,563	609,834
Non-controlling interests	14,278	16,659
Total equity	601,841	626,493
Total liabilities and equity	702,660	724,011

Financial commitments (note 24)

Approved by the Board of Directors,



Jean Lamarre, Director



Benoit Desormeaux, CPA, CA, Director

Consolidated Statement of Income (Loss)

For the years ended December 31, 2012 and 2011

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

	2012 $	2011 $
Revenue – Gold sales	388,501	395,916
Costs of operations		
Mining operation expenses (note 18)	184,372	170,392
Depreciation of property, plant and equipment	59,248	41,210
General and administrative (note 19)	24,834	22,224
Corporate social responsibility expenses	5,377	3,393
Share-based compensation (note 20)	3,046	4,533
Write-off of property, plant and equipment (note 9)	16,998	–
Impairment of property, plant and equipment (note 10)	60,000	–
Operating income	34,626	154,164
Other expenses (income)		
Finance income	(295)	(439)
Finance costs (note 21)	2,023	1,728
Foreign exchange loss (gain)	(735)	247
Loss on the sale of current investment (note 16 a)	24,297	–
Income before income taxes	9,336	152,628
Income tax expense (recovery)		
Current (note 17)	24,883	25,858
Deferred (note 17)	(6,491)	4,011
	18,392	29,869
Net income (loss) for the year	(9,056)	122,759
Attributable to:		
Equity shareholders	(6,604)	111,759
Non-controlling interests (note 22)	(2,452)	11,000
	(9,056)	122,759
Earnings (loss) per share (note 23)		
Basic	(0.02)	0.41
Diluted	(0.02)	0.40

Consolidated Statement of Comprehensive Income (Loss)

For the years ended December 31, 2012 and 2011

(Expressed in thousands of US dollars)

	2012 $	2011 $
Net income (loss) for the year	(9,056)	122,759
Other comprehensive loss		
Changes in fair value of investment in GoviEx (net of tax impact of $1,320) (note 16 a)	(8,480)	–
Changes in fair value of current investment (net tax impact of nil) (note 16 a)	(21,503)	(2,794)
Reclassification of accumulated other comprehensive loss to net loss related to current investment sold (net of tax impact of nil) (note 16 a)	24,297	–
Other comprehensive loss for the year, net of tax	(5,686)	(2,794)
Total comprehensive income (loss) for the year	(14,742)	119,965
Attributable to:		
Equity shareholders	(12,290)	108,965
Non-controlling interests	(2,452)	11,000
	(14,742)	119,965

Consolidated Statement of Changes in Equity

For the years ended December 31, 2012 and 2011

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

	Attributable to equity shareholders							
	Share capital							
	Common Shares[1] (in thousands)	Amount $	Contributed surplus $	Accumulated other comprehensive income $	Retained earnings $	Total $	Non-controlling interests $	TOTAL EQUITY $
Balance – January 1, 2011	272,238	452,542	8,053	8,480	32,761	501,836	4,954	506,790
Net income for the year	–	–	–	–	111,759	111,759	11,000	122,759
Other comprehensive loss for the year								
Changes in fair value of current investment (net tax impact of nil) (note 16 a)	–	–	–	(2,794)	–	(2,794)	–	(2,794)
Total comprehensive income for the year	–	–	–	(2,794)	111,759	108,965	11,000	119,965
Share-based compensation (note 20)	–	–	3,443	–	–	3,443	–	3,443
Shares issued from the exercise of options (note 20)	766	2,204	(561)	–	–	1,643	–	1,643
Dividends declared	–	–	–	–	(5,348)	(5,348)	–	(5,348)
Non-controlling interests' share of transactions in subsidiaries' equity	–	–	–	–	(705)	(705)	705	–
Balance – December 31, 2011	**273,004**	**454,746**	**10,935**	**5,686**	**138,467**	**609,834**	**16,659**	**626,493**
Balance – January 1, 2012	**273,004**	**454,746**	**10,935**	**5,686**	**138,467**	**609,834**	**16,659**	**626,493**
Net loss for the year	**–**	**–**	**–**	**–**	**(6,604)**	**(6,604)**	**(2,452)**	**(9,056)**
Other comprehensive loss for the year								
Changes in fair value of investment in GoviEx (net of tax impact of $1,320) (note 16 a)	**–**	**–**	**–**	**(8,480)**	**–**	**(8,480)**	**–**	**(8,480)**
Changes in fair value of current investment (net of tax impact of nil) (note 16 a)	**–**	**–**	**–**	**(21,503)**	**–**	**(21,503)**	**–**	**(21,503)**
Reclassification of accumulated other comprehensive loss to net loss related to current investment sold (net of tax impact of nil) (note 16 a)	**–**	**–**	**–**	**24,297**	**–**	**24,297**	**–**	**24,297**
Total comprehensive loss for the year	**–**	**–**	**–**	**(5,686)**	**(6,604)**	**(12,290)**	**(2,452)**	**(14,742)**
Share-based compensation (note 20)	**–**	**–**	**1,415**	**–**	**–**	**1,415**	**–**	**1,415**
Shares issued from the exercise of options (note 20)	**214**	**433**	**(118)**	**–**	**–**	**315**	**–**	**315**
Dividends declared (note 15)	**–**	**–**	**–**	**–**	**(10,853)**	**(10,853)**	**–**	**(10,853)**
Dividends declared by subsidiary to non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**(787)**	**(787)**
Non-controlling interests' share of transactions in subsidiaries' equity	**–**	**–**	**–**	**–**	**(858)**	**(858)**	**858**	**–**
Balance – December 31, 2012	**273,218**	**455,179**	**12,232**	**–**	**120,152**	**587,563**	**14,278**	**601,841**

[1] There were no common shares that were unpaid as of December 31, 2012 (2011: nil)

Consolidated Statement of Cash Flows

For the years ended December 31, 2012 and 2011

(Expressed in thousands of US dollars)

	2012 $	2011 $
Cash flows from (used in):		
Operating activities		
Net income (loss) for the year	(9,056)	122,759
Adjustments for:		
Depreciation of property, plant and equipment	59,248	41,210
Share-based compensation	3,046	4,533
Non-cash finance costs	1,409	874
Unrealized foreign exchange loss (gain)	1,975	(1,512)
Write-off of property, plant and equipment	16,998	–
Loss on the sale of current investment	24,297	–
Impairment of property, plant and equipment	60,000	–
Deferred income taxes expense (recovery)	(6,491)	4,011
Provisions	3,980	–
	155,406	171,875
Changes in non-cash working capital items (note 25 a)	(750)	(33,828)
	154,656	138,047
Financing activities		
Reimbursement of long-term debt	–	(15,000)
Proceeds on issuance of share capital	315	1,643
Reimbursement of advance payable	(2,000)	–
Payment of dividends to non-controlling interest	(787)	–
Payment of dividends to equity shareholders	(10,709)	–
	(13,181)	(13,357)
Investing activities		
Current investment	(4,813)	(25,101)
Proceeds from the sale of current investment	5,617	–
Acquisitions of property, plant and equipment	(180,766)	(145,634)
Decrease in restricted cash	303	3,181
	(179,659)	(167,554)
Effect of exchange rate changes on cash and cash equivalents	(1,078)	1,138
Change in cash and cash equivalents during the year	(39,262)	(41,726)
Cash and cash equivalents – beginning of year	178,713	220,439
Cash and cash equivalents – end of year	139,451	178,713
Interest paid	–	724
Interest received	295	439
Income tax paid	29,377	29,694

Supplementary cash flow information (note 25)

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 headquarters is located at 100 Alexis-Nihon blvd., 7th floor, Saint-Laurent, Quebec, 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's subsidiaries presently own and operate three gold mines in Burkina Faso, Niger and Guinea. 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 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") 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 accounting policies applied in these financial statements are based on IFRS effective for the year ended December 31, 2012, as issued and outstanding as of March 20, 2013, the date when the Board of Directors approved the financial statements.

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 is the Corporation and its subsidiaries' functional currency, and all values are rounded to the nearest thousands, except where otherwise indicated.

Basis of consolidation

These financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

Significant subsidiaries (consolidated) – ownership	**December 31, 2012**	December 31, 2011
SEMAFO Burkina Faso S.A.	**90%**	90%
SEMAFO Guinée S.A.	**85%**	85%
Société des Mines du Liptako (SML) S.A.	**80%**	80%

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.

3. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include all cash on hand and balances with banks 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, gold in circuit and stockpiles) 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 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.

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.

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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 statement of income gradually as the mining properties are put into commercial production.

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

The stripping costs are accounted for as variable production costs to be included in the costs of inventory produced during the period in which they are incurred. Stripping costs are capitalized when the stripping activity can be shown to be a betterment of the mineral property. Capitalized stripping costs are depreciated in a rational and systematic manner over the proven and probable reserves that directly benefit from specific stripping activities.

vi) 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.

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 statement of income. Losses on partial sales are recognized and reflected in the statement of income.

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 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.

3. Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

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 statement of income for the period.

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.

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 plus 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 profit or loss 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 statement of income.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

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 asset 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 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 and restricted cash, and are included in current assets except for the portion of restricted cash expected to be realized beyond twelve months of the 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.

iv) Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade payables and accrued liabilities, dividend payable and advance payable. Trade payables, other financial liabilities, dividend payable and advance payable 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, other financial liabilities, dividend payable and advance payable are measured at amortized cost using the effective interest method.

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

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 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.

3. Summary of significant accounting policies (continued)

Provisions

Provisions for environmental restoration, legal claims and special 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.

Income taxes

Tax expense for the period comprises current and deferred tax. Tax is recognized in the 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 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 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.

3. Summary of significant accounting policies (continued)

Income taxes (continued)

ii) Deferred income tax (continued)

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.

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 two distinct share-based incentive plans 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 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 statement of income, with a corresponding adjustment to equity.

ii) Restricted Share Units

Restricted share units (“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 period in which they are incurred.

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 statement of income within foreign exchange gain or loss.

3. Summary of significant accounting policies (continued)

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

A basic earnings per share is calculated by dividing the net income for the year attributable to shareholders of the Corporation by the weighted average number of common shares outstanding during the period.

A diluted earnings per share is 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 options for common shares.

4. Critical accounting estimates and judgements

The preparation of the Corporation's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. The estimates and assumptions that have a significant risk of causing material adjustments to the Corporation's financial statements 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 Institutes 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.

Impairment of non-financial assets

Assets are reviewed for an indication of impairment at each 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. This determination requires significant judgment. Factors which 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.

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

4. Critical accounting estimates and judgements (continued)

Impairment of non-financial assets (continued)

The fair values are 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 fair values of non-financial assets to their carrying values. The Corporation's fair value estimates are based on numerous assumptions such as, but not limited to, estimated realized gold prices, operating costs, gold recovery, mineral reserves, capital and site restoration expenditures and estimated future foreign exchange rates, and may differ from actual fair values and these differences may be significant and could have a material impact on the Corporation's financial position and result of operation. Mineral reserve estimates are the most important variable in the Corporation's fair value estimates. A decrease in the reserves 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.

In 2012, an impairment charge of $60,000,000 (2011: nil) was recorded and related to the Samira Hill Mine in Niger and was prompted by the re-assessment of future cash flows to be generated by the mine following the review of technical and economical parameters. Please refer to note 10 of these consolidated financial statements.

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 on an annual basis 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 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, timing change in discount rate and 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 they will incur 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. An asset retirement obligations study is actually ongoing at the Mana Mine and is expected to be completed in 2013.

4. Critical accounting estimates and judgements (continued)

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 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.

Management 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.

Measurement of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Corporation 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 in active markets.

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 flow.

5. New accounting standards issued but not yet in effect

The IASB issued or amended the following standards which are relevant but have not yet been adopted by the Corporation: IFRS 9, *Financial Instruments*; IFRS 10, *Consolidated Financial Statements*; IFRS 11, *Joint Arrangements*; IFRS 12, *Disclosure of Interests in Other Entities*; IFRS 13, *Fair Value Measurement*; amended IAS 27, *Separate Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures*; and IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mining*. Each of the new standards or amendments is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, except for IFRS 9, *Financial Instruments,* which is effective for annual periods beginning on or after January 1, 2015. Also, there were amendments to IAS 1*, Presentation of Financial Statements* effective for annual periods beginning on or after July 1, 2012.

The following is a brief summary of the new standards or amendments:

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

IFRS 9 was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple categories and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), for debt instruments with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they are largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. The Corporation is currently assessing the impact of adopting IFRS 9 on its consolidated financial statements.

IFRS 10, *Consolidated Financial Statements* ("IFRS 10")

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. The Corporation has assessed that the impact of adopting IFRS 10 on its consolidated financial statements is not significant.

IFRS 11, *Joint Arrangements* ("IFRS 11")

IFRS 11 supersedes IAS 31, *Interest in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, and requires a single method to account for interests in jointly controlled entities. The Corporation has assessed that the impact of adopting IFRS 11 on its consolidated financial statements is not significant.

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose entities and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Corporation has assessed that the impact of adopting IFRS 11 on its consolidated financial statements is not significant.

IFRS 13, *Fair Value Measurement* ("IFRS 13")

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures on fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. We are currently assessing the impact of adopting IFRS 13 on our consolidated financial statements.

5. New accounting standards issued but not yet in effect (continued)

IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* ("IFRIC 20")

IFRIC 20 was issued in October 2011. It provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when one of the two benefits accrue to the entity from the stripping activity: useable ore that can be used to produce inventory or improved access to further quantities of material that will be mined in future periods. We are currently assessing the impact of adopting IFRIC 20 on our consolidated financial statements.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, *Separate Financial Statements* ("IAS 27R"), and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 27R addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13. We have assessed that the impact of these amendments on our consolidated financial statements is not significant.

Moreover, amendments to IAS 1, *Presentation of Financial Statements* have been made to require entities to group items within other comprehensive income that may be reclassified to net income.

6. Cash and cash equivalents

	As at December 31, 2012 $	As at December 31, 2011 $
Cash	**119,451**	128,173
Cash equivalents	**20,000**	50,000
	139,451	178,173

Cash comprises cash on hand and demand deposits amounting to $119,451,000 which includes $33,530,000 of cash on hand bearing interest at a rate of 0.4000% annually as at December 31, 2012.

As at December 31, 2012, cash equivalents are composed of four zero coupon bank deposits of $5,000,000 each (totalling $20,000,000), maturing between March 26, 2013 and June 21, 2013 and bearing interest at a rate between 0.1525% and 0.1700% per annum.

As at December 31, 2011, cash comprised cash on hand and demand deposits amounting to $128,713,000 which includes $27,610,000 of cash on hand bearing interest at a rate of 0.35% annually.

As at December 31, 2011, cash equivalents are composed of five 180-day zero coupon bank deposits of $10,000,000 each (totaling $50,000,000), bearing interest at a rate of 0.20% per annum and all maturing on March 27, 2012.

Despite these bank deposits having an 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, 2012 $	As at December 31, 2011 $
Gold trade receivables	**11,119**	35,964
Other receivables	**19,276**	7,058
	30,395	43,022

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

Other receivables include value added tax ("VAT") receivables totalling $17,978,000 as of December 31, 2012 (2011: $4,174,000). They are non-interest bearing and are generally settled within one to six months. For the year ended December 31, 2012, bad debt expense on VAT receivables related to the Kiniero Mine amounted to $985,000 and was charged to general and administrative costs (2011: $1,250,500). Moreover, following the reimbursement received on VAT receivables, the Corporation recorded a reversal of $459,000 of bad debt allowance in 2012.

As at December 31, 2012, there were no VAT receivables past due for which an allowance for doubtful account was not recorded (2011: nil).

The Corporation holds no collateral for any receivable amounts outstanding as at December 31, 2012 (2011: nil).

8. Inventories

	As at December 31, 2012 $	As at December 31, 2011 $
Doré bars	**7,714**	2,029
Gold in circuit	**13,640**	8,545
Stockpiles	**7,102**	5,661
Supplies and spare parts	**68,373**	65,404
	96,829	81,639

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, 2012, obsolescence provision amounting to $1,905,000 was recorded (2011: $621,000). There were no reversals of write-down in 2012 (2011: nil).

9. Property, plant and equipment

	Property, acquisition costs, deferred exploration and development costs	Buildings and equipment related to mining production	Mining equipment	Rolling stock, communication and computer equipment	Stripping costs	TOTAL
	$	$	$	$	$	$
Year ended December 31, 2012						
Opening net book amount	149,752	122,445	50,475	6,062	33,453	362,187
Additions	66,046	38,277	42,588	3,286	33,989	184,186
Write-off	(16,998)	–	–	–	–	(16,998)
Impairment (note 10)	(22,260)	(12,720)	(6,000)	(900)	(18,120)	(60,000)
Depreciation charge	(24,780)	(13,508)	(10,951)	(2,111)	(11,995)	(63,345)
Closing net book amount	**151,760**	**134,494**	**76,112**	**6,337**	**37,327**	**406,030**
As at December 31, 2012						
Cost	305,021	220,986	116,272	17,971	75,172	735,422
Accumulated depreciation	(153,261)	(86,492)	(40,160)	(11,634)	(37,845)	(329,392)
Net book amount	**151,760**	**134,494**	**76,112**	**6,337**	**37,327**	**406,030**
Assets not subject to depreciation included in above[1]	4,800	35,350	18,796	133	–	59,079
Year ended December 31, 2011						
Opening net book amount	105,237	99,283	36,466	4,219	12,208	257,413
Additions	62,556	34,895	21,756	3,490	25,147	147,844
Depreciation charge	(18,041)	(11,733)	(7,747)	(1,647)	(3,902)	(43,070)
Closing net book amount	149,752	122,445	50,475	6,062	33,453	362,187
As at December 31, 2011						
Cost	255,973	182,709	73,684	14,685	41,183	568,234
Accumulated depreciation	(106,221)	(60,264)	(23,209)	(8,623)	(7,730)	(206,047)
Net book amount	149,752	122,445	50,475	6,062	33,453	362,187
Assets not subject to depreciation included in above[1]	9,520	21,335	1,528	410	–	32,793

In 2012, the Corporation recorded a write-off of $16,998,000 (2011: nil) on its property, plant and equipment. These charges were the result of the conversion of the Mana underground mining operations in Burkina Faso to a super pit mining scenario. They mainly consist of expenditures associated with feasibility studies, subcontractor expenditures and infrastructure specifically related to the underground project. Recoverable amount has been determined based on the fair value less cost to sale of the assets estimated at nil. The fair value less cost to sell was based on the best information available to reflect the amount that an entity could obtain from the disposal of the asset

[1] Assets not subject to depreciation include critical spare parts not yet installed of $6,369,000 (2011: $4,604,000) as well as assets under construction or in transit of $52,709,000 (2011: $28,189,000).

10. Impairment of property, plant and equipment

As at December 31, 2012, the Corporation determined that the review of technical and economical parameters at the Samira Hill Mine triggered an impairment review. The revision takes into consideration increases in sustaining capital expenditures, consumables and operating costs as well as escalating energy costs related to the poor reliability of the Niger power grid.

The result of the impairment test suggests that the recoverable amount calculated using the value in use, i.e. the present value of the future cash flow expected to derive from the Samira Hill Mine, was lower than the carrying amount of this CGU. The pre-tax discount rate used in the calculation of the value in use was 8.5%.

Accordingly, for the year ended December 31, 2012, the Corporation recorded an impairment charge of $60,000,000 (2011: nil) for non-financial assets all of which is property, plant and equipment of the Samira Hill Mine and was recorded in the consolidated statement of income. This impairment charge was recorded within the Samira Hill Mine segment.

11. Investment

	As at December 31, 2012 $	As at December 31, 2011 $
Investment in GoviEx, at fair value	**19,600**	29,400
	19,600	29,400

The Corporation has classified its investment in GoviEx Uranium Inc. ("GoviEx"), a non-quoted equity investment as an available-for-sale financial asset. In 2012, the Corporation recognized an unrealized loss of $8,480,000 as a result of the change in fair value of GoviEx (net of tax impact of $1,320,000) in other comprehensive loss (2011: nil).

12. Trade payables and accrued liabilities

	As at December 31, 2012 $	As at December 31, 2011 $
Trade payables	**35,597**	33,696
Royalty and withholding tax	**7,267**	7,721
Other accrued expenses	**24,156**	16,593
	67,020	58,010

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

13. Advance payable

	As at December 31, 2012 $	As at December 31, 2011 $
Advance payable to the Republic of Niger (current)	**915**	–
Advance payable to the Republic of Niger (non-current)	**–**	2,102
	915	2,102

The Republic of Niger has a 20% ownership interest in a subsidiary of the Corporation and is a related party.

Under the mining agreement, the Republic of Niger is entitled to receive a reimbursement for its exploration costs previously incurred on the Samira Hill project. The advance is non-interest bearing and measured at amortized cost using the effective interest rate method.

During the year ended December 31, 2012, the Corporation made reimbursements totalling $2,000,000 to the Republic of Niger and modified the repayment schedule associated with the advance payable. Accordingly, an additional payment of $1,007,000 is scheduled to be made in December 2013. As a result, accretion and change in fair value charges of $813,000 have been recorded for the year ended December 31, 2012, compared to $191,000 for the comparative period in 2011.

14. Provisions

	Asset retirement obligations $	Others $	Total $
As at January 1, 2011	7,008	–	7,008
Additional provisions	998	–	998
Increase due to accretion expense	507	–	507
Used during year	(8)	–	(8)
As at December 31, 2011	8,505	–	8,505
Additional provisions	1,274	4,700	5,974
Increase due to accretion expense	596	–	596
Used during year	–	–	–
As at December 31, 2012	**10,375**	**4,700**	**15,075**

14. Provisions (continued)

	As at December 31, 2012 $	As at December 31, 2011 $
Current	**2,588**	–
Non-current	**12,487**	8,505
	15,075	8,505

The liability for asset retirement obligations as at December 31, 2012 was $10,375,000 (2011: $8,505,000). The estimated undiscounted value of this liability was $12,752,000 (2011: $10,609,000). These disbursements are expected to be made during the years 2013 to 2021. An accretion expense component of $596,000 (2011: $507,000) has been charged to operations in finance costs in 2012 to reflect an increase in the carrying amount of the asset retirement obligation which has been determined using a weighted average discount rate of 7% (2011: 7%).

Other provisions include a special compensation arrangement of $2,700,000 (2011: nil) with the former President and Chief Executive Officer (see note 27) and a provision of $2,000,000 (2011: nil) related to the tax assessment received from the government of Burkina Faso (see note 17). The undiscounted value of the special compensation arrangement was $3,218,000 (2011: nil).

15. Share capital

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 $0.32 (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 $0.12 (C$0.12) per share

Rights Plan

On March 15, 2011, the Board of Directors of the Corporation approved the adoption of a Shareholder Rights Plan (“Rights Plan”) for which shareholders’ approval was obtained at the Corporation’s annual and special meeting of shareholders held on May 10, 2011. The purpose of the Rights Plan is to provide the shareholders and directors of the Corporation with adequate time to consider and evaluate any unsolicited bid and to provide the directors with adequate time to identify, develop and negotiate value-enhancing alternatives, if considered appropriate, to any such unsolicited bid.

The Rights Plan has been accepted by the Toronto Stock Exchange and was effective as of March 15, 2011 (the “Effective Date”). At the close of business on the Effective Date (as defined in the Rights Plan), one right (a “Right”) was issued and attached to each of the Corporation’s common shares that were outstanding at that time. A Right has also been attached to each common share issued after the Effective Date. The Rights Plan is in effect until the closing of the Corporation’s annual general meeting of shareholders in 2014.

15. Share capital (continued)

Rights Plan (continued)

The Rights Plan is not triggered if an offer to acquire the Corporation's common shares is made through a "Permitted Bid", thereby allowing sufficient time for shareholders to consider and react to the offer. A "Permitted Bid" is a take-over bid made by way of a take-over bid circular that, among other things, remains open for a minimum of 60 days and requires the acceptance by more than 50% of the common shares held by independent shareholders. The Rights Plan will be triggered by an acquisition, other than pursuant to a Permitted Bid, of 20% or more of the Corporation's outstanding common shares or the commencement of a take-over bid that is not a Permitted Bid.

Dividend declared

On May 14, 2012, the Board of Directors approved a cash dividend of C$0.02 per common share, paid on July 16, 2012 to shareholders of record at the close of business on June 30, 2012.

On November 6, 2012, the Board of Directors approved a cash dividend of $0.02 (C$0.02) per common share, payable on January 15, 2013 to shareholders of record at the close of business on December 31, 2012.

On November 8, 2011, the Board of Directors approved an inaugural cash dividend of $0.02 (C$0.02) per common share, payable on January 16, 2012 to shareholders of record at the close of business on December 31, 2011.

Capital risk management

Capital is defined as equity shareholders. As a result of the full reimbursement of its long-term debt in 2011, the Corporation has changed its definition of its capital.

	As at December 31, 2012	As at December 31, 2011
Equity Shareholders	**587,563**	609,834

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

a) 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
b) Ensure sufficient capital in order to meet short-term business requirements and pursue the development of its mining projects and operations
c) Maintain an optimal capital structure and reduce the cost of capital

The Corporation's objectives remain unchanged from 2011.

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.

16. 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 statement of income or other comprehensive income. These categories are: loans and receivables, available-for-sale financial assets and liabilities at amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories as at December 31, 2012 and 2011.

	As at December 31, 2012 $	As at December 31, 2011 $
Financial assets		
Loans and receivables		
Cash and cash equivalents	**139,451**	178,713
Restricted cash	**923**	1,226
Gold trade receivables	**11,119**	35,964
Other receivables (excluding VAT)	**1,298**	3,099
Available-for-sale assets		
Investment (current)	**–**	22,307
Investment in GoviEx	**19,600**	29,400
	172,391	270,709
Financial liabilities		
Amortized cost		
Trade payable and other financial liabilities	**53,853**	55,751
Dividend payable	**5,492**	5,348
Advance payable	**915**	2,102
	60,260	63,201

Financial risk factors

The Corporation's activities are exposed to financial risks: market risks, credit risk and liquidity risk.

A. Market risks

i) Fair value

The Corporation considers that the carrying amount of all its financial liabilities at amortized cost in its financial statements approximates its fair value, including the advance payable which is considered to approximate its fair value given its short-term maturity date. 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), restricted cash, trade payable and other financial liabilities, dividend payable and advance payable.

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
- Level 3 includes inputs for the asset or liability that are not based on observable market data

16. Financial Instruments (continued)

Financial risk factors (continued)

A. Market risks (continued)

i) Fair value (continued)

The investment in GoviEx, a private company, is included in investment and is valued at a fair value of $19,600,000 as at December 31, 2012 (2011: $29,400,000). The Corporation estimates the fair value of the investment in GoviEx using the most recent available information on this private equity investment. Accordingly, this investment is classified as a level 3 financial instrument according to the Corporation's fair value hierarchy as it is not based on observable market data. Should the most recent available information not be deemed appropriate to adequately determine the fair value of the investment in GoviEx, management will determine the fair value of this investment through the application of a market approach utilizing the average variation of the share price calculated from guidelines of public companies or stock market index for a given period. During the year ended December 31, 2012, the Corporation recorded an other comprehensive loss of $8,480,000 (2011: nil), net of tax impact totalling $1,320,000 (2011: nil), based on the Corporation's estimates determined using the market approach valuation technique.

In 2011, the Corporation made an investment of $25,101,000 in a quoted equity investment and was classified as Level 1. During 2012, the Corporation made a further investment of $4,813,000 for a total current investment of $29,914,000. The Corporation sold this current investment in 2012 for proceeds totalling $5,617,000, realizing a loss of $24,297,000. The Corporation recorded in 2011 and 2012 a loss in the statement of other comprehensive loss of respectively $2,794,000 and $21,503,000 as a result of the decrease in the fair value of the current investment. The Corporation reclassified these losses to net loss following the sale of this investment.

There were no transfers between Level 1, Level 2 and Level 3 in the years ended December 31, 2011 and 2012.

ii) Interest rate risk

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 payable is non-interest bearing and therefore bears no interest rate risk.

16. Financial Instruments (continued)

Financial risk factors (continued)

A. Market risks (continued)

iii) Foreign exchange risk

The operations of the Corporation in West Africa are subject to currency fluctuations and such fluctuations may materially affect the financial position and results of the Corporation. Gold is currently sold in US dollars. Although the majority of the costs of the Corporation are also in US dollars, certain costs are incurred in other currencies. The appreciation of non-US dollar currencies against the US dollar can increase the cost of exploration and production in US dollar terms. 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 equivalent, restricted cash, gold trade receivables and other receivables, trade payables and other financial liabilities and dividend payable in currencies other than its functional currency. Accordingly, the Corporation is exposed to foreign exchange risk. The balances in currencies are as follows as at December 31, 2012 and 2011:

	2012			2011		
	CAD	**EUR**	**GNF**	CAD	EUR	GNF
Cash and cash equivalents	**7,922**	**56,859**	**3,052,671**	4,922	17,115	1,222,006
Restricted cash	**–**	**1,217**	**–**	–	–	–
Gold trade receivables and other receivables	**79**	**1,579**	**17,563**	298	4,165	–
Trade payables and other financial liabilities	**(380)**	**(26,908)**	**(14,757,540)**	(4,338)	(21,164)	(5,759,392)
Dividend payable	**(5,520)**	**–**	**–**	(5,460)	–	–
	2,101	**32,747**	**(11,687,306)**	(4,578)	116	(4,537,386)
USD equivalents	**2,091**	**24,836**	**(1,704)**	(4,485)	150	(647)

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 variation of 10% in the Canadian dollar exchange rate would generate an impact of $190,000 on net loss for the year ended December 31, 2012 (2011: $408,000). A variation of 10% in the Euro exchange rate would generate an impact of $2,257,000 on net loss for the year ended December 31, 2012 (2011: $14,000).

iv) Equity price risk

The Corporation is exposed to equity price risk for its investment 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. A variation of ± 10% of the non-quoted equity investment in GoviEx as at December 31, 2012 would result in an estimated effect in the consolidated statement of comprehensive loss of $1,960,000 (2011: 2,940,000) (net of tax) for the year ended December 31, 2012.

16. Financial Instruments (continued)

Financial risk factors (continued)

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 and gold trade receivables and other 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 A+, and with banks in Africa, which have no credit rating. The Corporation only performs transactions with a single highly rated counterparty for the sale of gold. The Corporation has receivables from different governments in West Africa and receivables from a sales agent.

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, 2012:

	Between 0 and 6 months $	Between 7 and 12 months $
Trade payables and other financial liabilities	**51,973**	**1,880**
Dividend payable	**5,492**	**–**
Advance payable	**–**	**915**
	57,465	**2,795**

The Corporation's growth is financed through a combination of cash on hand, cash flows from operations and the issuance of equity. One of the Corporation'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 balance required for working capital management and other expected needs are invested in interest bearing current accounts and bank deposits. As at December 31, 2012, the Corporation held cash comprising of cash on hand and demand deposits amounting to $119,451,000 (2011: $128,173,000); and cash equivalents composing of bank deposits of $20,000,000 (2011: $50,000,000).

17. Income taxes

a) Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at December 31, 2012 $	As at December 31, 2011 $
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	**2,427**	–
Deferred tax asset to be recovered within 12 months	**1,300**	–
	3,727	–
Deferred tax liabilities		
Deferred tax liability to be reversed after more than 12 months	**(583)**	(3,101)
Deferred tax liability to be reversed within 12 months	**(2,184)**	(3,853)
	(2,767)	(6,954)
Net deferred tax assets	**960**	(6,954)

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:

Deferred tax assets	Property, plant and equipment $	Share issued expense $	Operating losses carried forward $	Unrealized foreign exchange losses $	Intangible assets $	Reserve $	Donations $	Total $
As at January 1, 2011	4,485	2,136	920	76	203	–	515	8,335
Charged (credited) to consolidated statement of income (loss)	(1,542)	(724)	206	(77)	(5)	293	400	(1,449)
Exchange differences	–	–	25	–	–	–	–	25
As at December 31, 2011	**2,943**	**1,412**	**1,151**	**(1)**	**198**	**293**	**915**	**6,911**
Charged (credited) to consolidated statement of income (loss)	3,512	(1,412)	1,489	282	(198)	(293)	(915)	2,465
Exchange differences	168	–	16	12	–	–	–	196
As at December 31, 2012	**6,623**	**–**	**2,656**	**293**	**–**	**–**	**–**	**9,572**

17. Income taxes (continued)

a) Deferred income taxes (continued)

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:

Deferred tax liabilities	Inventories	Property, plant and equipment	Investments	Unrealized foreign exchange gain	Debt	Reserve	Investments in subsidiaries	Total
	$	$	$	$	$	$	$	$
As at January 1, 2011	(470)	(3,716)	(3,802)	(3,335)	(329)	–	–	(11,652)
Charged (credited) to consolidated statement of income (loss)	(338)	(367)	–	(589)	52	(2,499)	–	(2,563)
Exchange differences	38	136	(25)	33	–	168	–	350
As at December 31, 2011	**(770)**	**(3,947)**	**(3,827)**	**(2,713)**	**(277)**	**(2,331)**	**–**	**(13,865)**
Charged (credited) to consolidated statement of income (loss)	221	3,800	14	(442)	275	647	(489)	4,026
Credited to other comprehensive income (loss)	–	–	1,320	–	–	–	–	1,320
Exchange differences	(4)	(3)	(13)	(64)	2	(11)	–	(93)
As at December 31, 2012	**(553)**	**(150)**	**(2,506)**	**(3,219)**	**–**	**(1,695)**	**(489)**	**(8,612)**

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related taxable income through future taxable income is probable. Accordingly, the Corporation has deferred tax asset related to losses carry-forward totalling $2,656,000 as at December 31, 2012 (2011: $1,151,000) but did not recognize deferred income tax assets of $17,132,000 (2011: $15,308,000) in respect of losses amounting to $78,899,000 (2011: $66,463,000) that can be carried forward against future taxable income and expiring between 2013 and 2032.

The Corporation did not recognize deferred income tax assets of $28,934,000 (2011: $13,741,000) in respect of depreciation amounting to $90,279,000 (2011: $45,311,000) that can be carried forward indefinitely against future taxable income.

Deferred income tax liabilities of $18,461,000 (2011: $14,993,000) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled $295,369,000 at December 31, 2012 (2011: $239,899,000).

17. Income taxes (continued)

b) Income tax expense

	2012 $	2011 $
Current tax		
Current tax on profits for the year	**23,139**	27,862
Adjustments in respect of prior years	**1,744**	(2,004)
Total current tax	**24,883**	25,858
Deferred tax		
Additions and reversals of temporary differences	**(5,866)**	1,140
Adjustments in respect of prior years	**(625)**	2,871
Total deferred tax	**(6,491)**	4,011
Income tax expense	**18,392**	29,869

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:

	2012 $	2011 $
Income before income taxes	**9,336**	152,628
Domestic tax rates applicable to profits in the respective countries	**26.90%**	28.40%
Tax calculated at domestic tax rates applicable to profits in the respective countries	**2,511**	43,346
Tax effects of:		
Difference in tax rate of foreign subsidiaries	**(11,852)**	(18,387)
Utilisation of unrecorded tax benefits	**–**	(4,265)
Tax benefits for which no deferred income tax asset was recognised	**20,909**	–
Expenses not deductible for tax purposes	**3,884**	1,179
Adjustments in respect of prior years	**1,061**	867
Foreign exchange loss not materialized	**60**	2,277
Effect of currency translation on tax base	**(1,624)**	2,961
Other tax paid included in income tax expense	**4,079**	2,179
Other	**(636)**	(288)
Income tax expense	**18,392**	29,869

The decrease in the Corporation's statutory tax rate is explained by the reduction in the federal statutory tax rate from 16.5% to 15%.

17. Income taxes (continued)

In December 2012, the Corporation received a tax assessment from the Burkinabe tax authorities covering the years 2009 to 2011 totalling $21,300,000 including $8,000,000 in penalties. The assessment covers four items: VAT on interest expenses and management fees, insufficient withholding taxes paid related to non-resident service providers, corporate income tax adjustments as well as capital income tax.

The Corporation recognized that VAT should have been paid on interest expense and management fees. Accordingly, VAT totalling approximately $7,000,000 has been accrued for as at December 31, 2012 and will be recoverable.

The Corporation believes that the elements covered by the tax assessment other than the VAT are not applicable to Semafo Burkina Faso S.A. according to its mining agreement with the Government of Burkina Faso. The Corporation is vigorously defending its position and has filed a submission to the Burkinabe tax authorities. The Corporation has exercised accounting judgment and has recorded $2,000,000 in its current provision as at December 31, 2012 (note 14).

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, result of operations and cash flows.

18. Mining operation expenses

	2012 $	2011 $
Production costs	**164,393**	150,535
Government royalties	**19,979**	19,857
	184,372	170,392

19. General and administrative

	2012 $	2011 $
Corporate expenses	**20,054**	17,342
Sites – Administrative	**4,780**	4,882
	24,834	22,224

20. Share-based compensation

	2012	2011
	$	$
Options plans (a)	**1,415**	3,443
Restricted Share Unit plan (b)	**1,631**	1,090
	3,046	4,533

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 the 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. Since the adoption by the Corporation's shareholders of the 2010 Plan, no further option has been granted nor will be granted under the Original Plan.

The Original Plan provides for the grant of non-transferable options for the purchase of common shares. The Corporation's Board of Directors has the authority to select those employees, officers, consultants and directors to whom options will be granted; to determine the terms, limits, restrictions and conditions of the grants of options; to interpret the Original Plan; and to make all decisions relating thereto, except for amendments that require shareholders' approval. The option price shall not be lower than the closing price of the Corporation's common shares on the Toronto Stock Exchange on the last trading day before the day on which the option is granted. The number of options that may be issued to a person pursuant to the Original Plan cannot exceed, at all times, 5% of the issued and outstanding shares.

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.

There are 16,000,000 of the Corporation's common shares which may be issued pursuant to the exercise of share options granted under the plans. Of this number, 5,182,000 shares were issued as at December 31, 2012 (2011: 4,967,000), leaving a balance of 10,818,000 shares available to be issued under the plans (2011: 11,033,000). As at December 31, 2012, the Corporation had issued options, allowing for the subscription of 9,158,000 common shares of its share capital (2011: 9,265,000).

A total of 195,000 new options were issued to directors of the Corporation during year ended December 31, 2012 (2011: 113,000). The fair market value of the options granted options during year ended December 31, 2012, totalled $605,000 (2011: $602,000). Among the new options, 64,000 new options are vested over a 4-year period and 131,000 new options are vested immediately.

20. Share-based compensation (continued)

a) Options (continued)

The share-based compensation cost was calculated according to the fair value of options issued based on the Black-Scholes valuation model using the following weighted average assumptions:

	2012	2011
Expected dividend per share	**0%**	0%
Forecasted volatility	**60%**	60%
Risk-free interest rate	**1.33%**	2.25%
Expected life	**5 years**	5 years
Fair value - weighted average of options issued	**$3.11**	$5.34

Forecasted volatility has been determined using historical volatility.

For the year ended December 31, 2012, the total expense for the share-based compensation related to share option plans was $1,415,000 (2011: $3,443,000) and was credited to contributed surplus.

A total of 214,000 options were exercised during 2012 under the Original Plan for a cash consideration of $315,000. An amount of $118,000 has been reclassified from contributed surplus to share capital. For the same period in 2011, a total of 766,000 options were exercised under the Original Plan for a cash consideration of $1,643,000. An amount of $561,000 has been reclassified from contributed surplus to share capital.

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

	2012			2011		
(in thousands, except weighted average exercise price)	Number of options (in thousands)	Weighted average exercise price $		Number of options (in thousands)	Weighted average exercise price $	
Balance – beginning of year	**9,265**	**2.66**	**(C$2.71)**	9,948	2.61	(C$2.59)
Forfeited	**(88)**	**7.04**	**(C$7.01)**	(30)	6.52	(C$6.65)
Exercised	**(214)**	**1.47**	**(C$1.45)**	(766)	2.15	(C$2.19)
Issued	**195**	**6.04**	**(C$6.01)**	113	9.90	(C$10.11)
Balance – end of year	**9,158**	**2.78**	**(C$2.77)**	9,265	2.66	(C$2.71)
Options exercisable – end of year	**7,358**	**2.55**	**(C$2.54)**	5,765	2.29	(C$2.33)

20. Share-based compensation (continued)

a) Options (continued)

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

(in thousands, except weighted average exercise price/option and average residual life span)	Options outstanding			Options exercisable	
Range of exercise prices	Options outstanding (in thousands)	Average residual life span (in years)	Weighted average exercise $ price/options	Options exercisable (in thousands)	Weighted average exercise $ price/options
$1.01 (C$1.00) to $1.38 (C$1.37)	1,415	4.70	1.30 (C$1.30)	1,415	1.30 (C$1.30)
$1.41 (C$1.40) to $1.93 (C$1.92)	1,533	4.74	1.66 (C$1.65)	1,533	1.66 (C$1.65)
$2.03 (C$2.02) to $2.17 (C$2.16)	2,063	6.41	2.05 (C$2.04)	1,525	2.05 (C$2.04)
$2.24 (C$2.23) to $3.97 (C$3.95)	2,114	5.12	2.83 (C$2.82)	1,725	2.78 (C$2.77)
$4.72 (C$4.70) to $5.25 (C$5.22)	1,717	7.11	4.80 (C$4.77)	907	4.78 (C$4.76)
$7.49 (C$7.45) to $10.72 (C$10.67)	316	3.39	8.39 (C$8.35)	253	8.49 (C$8.45)
	9,158	5.59	2.78 (C$2.77)	7,358	2.55 (C$2.54)

b) RSUs

Under the Corporation's Restricted Share Unit Plan ("Unit 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. Pursuant to the Unit 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. In 2011, the vesting rights of the RSUs corresponded to the achievement of an annual objective of the mineral reserve replenishment combined with the participants remaining at the employment of the Corporation at the end of the vesting period. The annual objective for the mineral reserve replenishment is determined at or before the issuance date. In 2012, the Board of Directors approved the removal of the performance criteria of the mineral reserves and only requires that the participants remain at the employment of the Corporation at the end of the vesting period for the 2011 and 2012 RSUs granted. 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. The removal of the performance criteria did not have an impact on the accounting of the RSUs.

The following table provides the year ended December 31, 2012 and 2011 activity for all RSUs:

	RSUs non vested
Outstanding as of January 1, 2011	–
2011 plan	515,000
Outstanding as of December 31, 2011	515,000
2012 plan	810,000
Forfeited	(40,000)
Outstanding as of December 31, 2012	**1,285,000**

As at December 31, 2012, there are no RSUs vested (2011: nil).

20. Share-based compensation (continued)

b) RSUs (continued)

The following table details the break-down of the Unit Plan expense:

	2012 $	2011 $
Expense related to RSUs granted	**4,168**	1,803
Credit related to change in the fair value of the share price	**(2,537)**	(713)
	1,631	1,090

The unit plan expense includes a $720,000 special compensation arrangement with the former President and Chief Executive Officer (see note 27), for which no RSUs were granted yet. This liability has been included in the provision.

21. Finance costs

	2012 $	2011 $
Interest expense on long-term debt	**–**	899
Accretion expense of asset retirement obligations	**596**	507
Accretion expense and change in fair value of advance payable to Republic of Niger	**813**	191
Other	**614**	131
	2,023	1,728

22. Non-controlling interests

	2012 $	2011 $
Government of Burkina Faso - 10% in SEMAFO Burkina Faso S.A.	**8,399**	11,706
Government of Niger - 20% in Société des Mines du Liptako (SML) S.A.	**(9,233)**	765
Government of Guinea - 15% in SEMAFO Guinée S.A.	**(1,618)**	(1,471)
	(2,452)	11,000

23. Earnings (loss) per share

(In thousands of dollars, except shares and per shares)	2012 $	2011 $
Net income (loss) for the year attributable to the equity shareholders	**(6,604)**	111,759
Average weighted number of outstanding common shares – basic	**273,146**	272,609
Dilutive effect of options	**–**	6,246
Weighted average number of outstanding common shares – diluted [1]	**273,146**	278,855
Basic earnings (loss) per share	**(0.02)**	0.41
Diluted earnings (loss) per share	**(0.02)**	0.40

[1] As the Corporation has a net loss attributable to the equity shareholders for the year ended December 31, 2012, diluted earnings per share was calculated from the basic weighted average number of outstanding common shares because the effect of options is antidilutive.

24. Financial commitments

Purchase Obligations
As at December 31, 2012, the purchase commitments totalled $7,139,000. In addition, on October 1, 2011, the Corporation entered into an agreement with National Electricity Company Sonabel, in Burkina Faso, according to which the Corporation will advance $9,500,000 for the construction of a 73-kilometer high-voltage transmission line. This amount is reimbursable to the Corporation by Sonabel over an eight-year period following commissioning. As at December 31, 2012, no amounts have been advanced to Sonabel with respect to this project.

Government Royalties and Development Taxes
In Burkina Faso, gold spot prices lower or equal to $1,000 per ounce are subject to a royalty rate of 3%, a 4% rate applies for spot prices between $1,000 and $1,300 per ounce, and a 5% royalty rate is applied on all shipments with a gold spot price greater than $1,300 per ounce.

In 2012, the Corporation was subject to a royalty rate of 5%, which was calculated using the retail market value of gold ounces sold at the time of shipment. In 2012, government royalties amounting to $14,334,000 (2011: $14,420,000) were paid to the Government of Burkina Faso.

The Corporation is subject to a royalty rate of 5.5% of the market value of gold ounces sold originating from the Samira Hill Mine payable to the Republic of Niger. In 2012, government royalties amounting to $4,476,000 (2011: $4,092,000) were paid to the Government of Niger.

The Corporation is subject to a royalty rate of 5% of the market value of gold ounces sold originating from the Kiniero Mine payable to the Republic of Guinea. In addition, the Corporation has to invest 0.4% of its gold sales in local development projects. In 2012, government royalties amounting to $1,169,000 (2011: $1,345,000) were paid to the Government of Guinea.

Net Smelter Royalty – Samira Hill Mine
Further to the acquisition from Etruscan Resources Inc. (“Etruscan”) of their minority interest in the subsidiary operating the Samira Hill Mine located in Niger, the Corporation is subject to a 1.5% net smelter royalty. The royalty comes into effect after the mine has produced 750,000 ounces, calculated as from July 1, 2009. Since July 1, 2009, the Samira Hill Mine has produced 176,400 ounces. The Corporation has been granted a right of first refusal should Etruscan decide to sell this royalty.

25. Financial information included in the consolidated statement of cash flows

a) Changes in non-cash working capital items

	2012 $	2011 $
Trade and other receivables	**12,627**	(37,001)
Inventories	**(11,442)**	(12,039)
Other current assets	**(915)**	(279)
Trade payables and accrued liabilities	**6,213**	21,213
Income tax payable	**(7,233)**	(5,722)
	(750)	(33,828)

b) Supplemental information on non-cash items

	2012 $	2011 $
Depreciation of property, plant and equipment allocated to exploration and stripping costs	**3,575**	1,345
Net effect of depreciation of property, plant and equipment allocated to inventories	**3,748**	648
New asset retirement obligations allocated to property, plant and equipment	**1,274**	998
Net book amount of written-off assets (cost of $3,226,000 for 2012 (2011: $959,000))	**895**	826

26. Related party transactions

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

	2012 $	2011 $
Short-term employee benefits	**4,590**	4,135
Share-based compensation	**2,403**	3,079
Long-term benefits	**1,640**	–
	8,633	7,214

In 2012, the remuneration of key management includes a special compensation arrangement with the former President and Chief Executive Officer totalling $2,700,000, which consisted of share-based compensation expense of $720,000, short-term benefits of $340,000 and long-term benefits of $1,640,000.

The Corporation has a termination and change of control benefits agreement with the President and Chief Executive Officer and the Chief Financial Officer. If any of these individuals had been terminated on December 31, 2012, the President and Chief Executive Officer would have received approximately $3,923,000 and the Chief Financial Officer approximately $828,000.

27. Segmented information

The Corporation is conducting exploration and production activities on different sites in Burkina Faso, Niger and Guinea. These sites are managed separately given their different location and laws. The business segments presented reflect the management structure of the Corporation and the way in which the Corporation's management reviews business performance. The Corporation evaluates the performance of its operating segments primarily based on segment operating income (loss), as defined below.

					2012
	Mana, Burkina Faso $	Samira Hill, Niger $	Kiniero, Guinea $	Corporate and others $	Total $
Revenue – Gold sales	287,209	79,506	21,786	–	388,501
Mining operating expenses	128,123	45,690	10,559	–	184,372
Depreciation of property, plant and equipment	35,992	19,078	3,620	558	59,248
General and administrative	2,279	1,425	1,076	20,054	24,834
Corporate social responsibility expenses	2,208	222	977	1,970	5,377
Share-based compensation	–	–	–	3,046	3,046
Write-off of property, plant and equipment [1]	16,998	–	–	–	16,998
Impairment of property, plant and equipment (note 10)	–	60,000	–	–	60,000
Operating income (loss)	**101,609**	**(46,909)**	**5,554**	**(25,628)**	**34,626**
Property, plant and equipment	341,587	30,857	27,408	6,178	406,030
Total assets	482,948	76,735	44,424	98,553	702,660

					2011
Revenue – Gold sales	297,673	73,798	24,445	–	395,916
Mining operating expenses	111,284	42,212	16,896	–	170,392
Depreciation of property, plant and equipment	25,297	11,743	3,825	345	41,210
General and administrative	1,521	1,605	1,756	17,342	22,224
Corporate social responsibility expenses	898	302	612	1,581	3,393
Share-based compensation	–	–	–	4,533	4,533
Operating income (loss)	**158,673**	**17,936**	**1,356**	**(23,801)**	**154,164**
Property, plant and equipment	244,176	88,608	25,148	4,255	362,187
Total assets	363,179	128,807	40,296	191,729	724,011

[1] At the Mana Mine, in Burkina Faso, write-off of $16,998,000 for the year ended December 31, 2012, on the property, plant and equipment was recorded as the result of the conversion of the Mana underground mining operations in Burkina Faso to a super pit scenario.

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