

# *Management discussion and analysis of financial condition and results of operations*

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The following discussion of the results and financial position of the Company for each of the years in the three-year period ended December 31, 1999 should be read in conjunction with the consolidated financial statements and related notes.

## **Significant Financial Data**

The table below shows significant financial data for the last three years :

<b>For the years ended December 31</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Revenues	<b>959,830</b>	2,163,754	1,674,144
Net income (net loss)	<b>(29,579,468)</b>	179,639	503,977
- per share	<b>(0.82)</b>	0.005	0.02
Cash, cash equivalent and short-term investments	<b>33,776,908</b>	21,565,840	30,062,218
Total assets	<b>54,029,326</b>	63,755,193	65,210,760
Redeemable preferred shares	-	-	985,440
Shareholders' equity	<b>53,017,306</b>	62,738,790	62,755,490

## **Analysis of Results**

For the period, ended on December 31, 1999, the Company shows a net loss of \$29,579,468 ((\$0.82) per share), compared to a net income of \$179,639 (\$0.005 per share) in 1998 and a net income of \$503,977 (\$0.02 per share) in 1997.

The net loss of the year 1999, is attributed mainly to the write-off of mining assets. During the year, management re-evaluated all the Company's properties, which has resulted in a write-off totalling \$29,119,175 (548 962 \$ in 1998). The company still holds the properties related to these write-off.

In 1998, the company recorded a non-recurring revenue of \$935,440 resulting from the redemption of preferred shares for a consideration of \$50,000. Following the use of the liquid assets during the period, the interest revenues were decreased from \$1,050,230 in 1998 to \$959,830 in 1999.

The total expenses other than write-off of exploration expenses decreased from \$1,435,153 in 1998 to \$1,420,123 in 1999. Project search expenses went from \$486,902 in 1998 to \$309,466 in 1999. The administrative expenses increased from \$948,251 in 1998 to \$1,021,282 in 1999.

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### **Liquidity and Capital Resources**

The liquid assets increased by \$14,047,937 in 1999, compared to \$4,445,231 in 1998. This increase is attributed mainly to the strategic partnership with Managem S.A. whereby the company issued capital stock for an amount of \$19,062,400. On the other hand, the Company used liquidities in the development of its mining assets for an amount of \$4,708,649 (\$7,584,528 in 1998). The Company continued to be in a strong financial position with consolidated cash, cash equivalent and short-term investments of \$33,776,908 at the end of the period.

In 1998 and 1997, the cash, cash equivalent and short-term investments totalled \$21,565,840 and \$30,062,218 respectively.

### **Financing**

During the period, the Company, as previously mentioned, entered into a strategic partnership. This agreement, resulted in the issuance of capital stock, for a cash consideration of \$19,062,400. The Company also issued 17,020,000 warrants which will, if exercised, increase the liquid asset of \$22,977,000 over the next two years. Furthermore, the Company issued capital stock for a value of \$1,631,274 in consideration of all outstanding shares of Prospex Mining Inc. In 1998, the Company issued shares for a value of \$60,000 for the buy-back of a participation in the Ebi property in Ghana.

### **Investment**

The exploration expenses decreased from \$14,960,842 in 1997 to \$7,644,528 in 1998 and \$6,339,923 in 1999. Most of the expenses in 1999 were incurred in relation with the feasibility study and the acquisition of a mining plant which will be used on Jean/Gobele. The Company also invested an amount of \$ 694,413 following the new discovery on the Mana property in Burkina Faso.

### **Risks**

SEMAFO, as a mining exploration company, faces the financial and political risks inherent to the nature of its activities. The Company also faces risks stemming from other factors, such as fluctuations in gold prices, exchange rates and financial market conditions in general.

### **Year 2000**

The Company has examined the risks associated with the Year 2000 as regards to computer systems and applications. The programs used were verified with manufacturers and they were certified in compliance with year 2000. Management does not anticipate to incur additional fees in the future regarding this matter.

## Management's Statement of Responsibility

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Management is responsible for the presentation of the consolidated financial statements, the notes thereto and other financial information contained in the annual report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles using management's best estimates where appropriate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee, which is comprised of three independent directors, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial responsibilities and to review the consolidated financial statements and the auditors' report. The Committee in turn reports its findings to the Board of Directors.

The consolidated financial statements have been audited by independent auditors, PricewaterhouseCoopers LLP, in accordance with generally accepted auditing standards, and include tests and other procedures which allow the auditors to report whether the consolidated financial statements prepared by management are presented fairly and in accordance with generally accepted auditing standards. The auditors have full and unrestricted access to the Audit Committee.



Benoit La Salle  
President and Chief Executive Officer

## Auditors' Report

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We have audited the consolidated balance sheets of Semafo Inc. as at December 31, 1999 and 1998 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



**Chartered Accountants**

February 11, 2000

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