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The Management's Discussion and Analysis ("MD&A") provides a discussion and analysis of our financial condition and results of operations to enable a reader to assess material changes in financial condition and results of operations for the year ended December 31, 2005 to those of the previous year. This MD&A, prepared as of March 14, 2006, is intended to complement and supplement our audited consolidated financial statements and should be read in conjunction with our financial statements and notes thereto. Our financial statements and this MD&A are intended to provide investors with reasonable basis for assessing our result of operation and our financial performance.

Our audited consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles, and all dollar amounts in this MD&A are expressed in American dollars, unless otherwise specified.

Years ended December 31	2005	2004	2003
Operations			
Gold production (ounces)	157,910	62,570	46,728
Gold sales (ounces)	157,045	59,740	46,588
Cash operating cost (\$/ounce produced)	239	252	232
Average selling price (\$/ounce sold)	374	347	323
Results (in thousands \$)			
Gold sales	58,760	20,766	15,040
Net loss before loss on settlement of gold sales contracts	(4,913)	(4,941)	(8,193)
Net loss	(13,482)	(4,941)	(8,193)
Cash flow from operating activities ¹	11,391	56	(688)

¹ Excluding net changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment and the effect of the settlement of gold sales contracts of \$13,290,000 in 2005.

HIGHLIGHTS OF 2005

- **Record total production of 157,910 ounces of gold at a cash operating cost of \$239 per ounce.**
- **Record production of 61,416 ounces of gold at Kiniero at a cash operating cost of \$276 per ounce.**
- **First year of production of 96,494 ounces of gold at Samira Hill at a cash operating cost of \$216 per ounce.**
- **Increase in gold sales of \$37,994 000 to reach a record of \$58,760,000.**
- **Increase of 335,000 ounces in mineral reserves at the Mana project, representing a 62% increase compared to 2004.**
- **Increase of 96,000 ounces in mineral reserves at the Kiniero mine, representing a 37% increase compared to 2004.**
- **Increase of 147,000 ounces in mineral reserves at the Samira Hill mine, representing a 25% increase compared to 2004.**
- **Realization of a private placement for an amount of \$55,750,000.**
- **Total reduction of 65% of the indebtedness by reimbursement of \$21,275,000.**
- **Redemption of 58,128 ounces from our gold sales contracts program.**

GOALS 2006

- **Produce 64,000 ounces of gold at a cash operating cost of \$278 per ounce, at the Kiniero mine.**
- **Invest \$1,500,000 in the exploration programs with the objectives of increasing reserves and resources at Kiniero.**
- **Produce 106,000 ounces of gold at the Samira Hill mine at a cash operating cost of \$266 per ounce.**
- **Invest \$1,200,000 in the exploration programs with the objectives of increasing reserves and resources at Samira Hill.**
- **Negotiate a mining convention and secure the financing for the Mana project.**
- **Construction start-up of the Mana project.**
- **Continue an exploration program and discover new mineral zones in Burkina Faso.**

REVIEW OF MINING OPERATIONS

KINIERO MINE

Years ended December 31	2005	2004
Operating statistics		
Tonnage mined (tonnes)	605,822	461,316
Ore processed (tonnes)	617,080	411,948
Head-grade (g/tonnes)	3.28	3.36
Recovery (%)	93	93
Gold production (ounces)	61,416	41,049
Cash Operating Cost (\$/ounce produced)	276	283

During 2005, we mined at Kiniero, a total of 605,822 tonnes of ore compared to 461,316 tonnes in 2004. We also mined 4,694,724 tonnes of waste material during the year compared to 4,859,610 tonnes in 2004.

In 2005, we processed at the Kiniero mine a total of 617,080 tonnes of ore, at an average grade of 3.28 g/t compared to 411,948 tonnes of ore at an average grade of 3.36 g/t in 2004. This 50% increase in processed tonnage is mainly explained by the higher mill capacity, following the addition of a second ball mill, which enabled us to process an average of more than 51,000 tonnes of oxide ore per month, compared to 41,000 tonnes per month in 2004.

During the year 2005, we reached a record production of 61,416 ounces of gold at a cash operating cost of \$276 per ounce compared to a production of 41,049 ounces at a cash operating cost of \$283 per ounce in 2004. This 50% increase in ounces produced is mainly due to the increase in the availability and capacity of the plant.

Outlook

In 2006, our gold production target is 64,000 ounces at Kiniero at a cash operating cost of \$278 per ounce. In 2006, we foresee the processing of 620,000 tonnes of ore at an average grade of 3.5 g/t.

As at December 31, 2005, the Kiniero cumulative production since the start-up of the mine totalled 191,000 ounces of gold, while the mineral reserves as at December 31, 2005 amounted to 357,000 ounces of gold. This 37% increase in the mineral reserves compared to 2004, demonstrates the success of our exploration program at Kiniero. In 2006, an exploration budget of \$1,500,000 has been approved with the objective of increasing mineral reserves of 100,000 ounces and at the same time to develop the resources.

SAMIRA HILL MINE

Years ended December 31	2005	2004
Operating statistics		
Tonnage mined (tonnes)	1,773,680	550,728
Ore processed (tonnes)	1,373,581	398,411
Head-grade (g/tonnes)	2.41	2.03
Recovery (%)	88	89
Gold production (ounces)	96,494	21,521
Cash Operating Cost (\$/ounce produced)	216	192

Commercial production at Samira Hill started October 1, 2004. Operation's statistics only include three months in 2004 and therefore can not be compared with the 2005 statistics.

During 2005, a total of 1,773,680 tonnes of ore and 6,258,223 tonnes of waste were mined at Samira Hill from the Samira Main and the Samira East pits.

During the same period at Samira Hill, we processed a total of 1,373,581 tonnes of ore at an average grade of 2.41 g/t with an 88% recovery rate.

We produced 96,494 ounces of gold at Samira Hill for the year 2005 at a cash operating cost of \$216 per ounce.

During the three-month period of operation in 2004, we produced 21,521 ounces of gold at a cash operating cost of \$192 per ounce.

Outlook

In 2006, our gold production target is 106,000 ounces at Samira Hill at a cash operating cost of \$266 per ounce. In 2006, we foresee the processing of a total of 1,740,00 tonnes of ore at an average grade of 2.2 g/t.

As at December 31, 2005, the cumulated production at Samira Hill, since its start-up in October 2004, totalled 118,000 ounces of gold, while the mineral reserves as at December 31, 2005 amounted to 739,000 ounces of gold. This 25% increase in mineral reserves compared to 2004 demonstrates the potential growth at Samira Hill. An exploration budget of \$1,200,000 for 2006 has been approved with the objective of replacing and increasing mineral reserves..

STATEMENTS OF OPERATIONS

Significant Annual Financial Data

(in accordance with Canadian Generally Accepted Accounting Principles)

Years ended December 31	2005	2004	2003
Statements of operation and cash flows (in thousands \$, except for amount per share \$)			
Gold sales	58,760	20,766	15,040
Net loss on gold sales contracts	(80)	(3,485)	(1,837)
Revenue	58,680	17,281	13,203
Net loss	(13,482)	(4,941)	(8,193)
Net loss per share			
Basic	(0.14)	(0.05)	(0.11)
Diluted	(0.14)	(0.05)	(0.11)
Operating cash flow ¹	11,391	56	(688)
Balance sheet			
Cash and cash equivalents	22,208	4,507	17,421
Total assets	128,054	109,616	94,932
Total long-term debt (including current portion)	11,340	32,615	19,700
Shareholders' equity	92,686	49,698	53,682

¹ Excluding net changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment and the effect of the settlement of gold sales contracts of \$13,290,000 in 2005.

For the year-ended December 31, 2005, Semafo presents a net loss of \$13,482,000 or (\$0.14) per share compared to a net loss of \$4,941,000 or (\$0.05) per share for the corresponding period in 2004. The increase of the net loss in 2005 is mainly due to the loss on settlement of gold sales contracts of \$8,569,000. Following the favourable outlook of the gold price, the company redeemed most of its gold sales contracts at Kiniero. Also a gain on disposal of investment in subsidiaries of \$7,323,000 was realized in 2004. Without these two specific items, the decrease of the net loss would be \$7,295,000. This improvement is mainly due to the 2005 contribution of the Samira Hill mine and the increase in gold production at the Kiniero mine.

Segmented information

Year ended December 31 (in thousands \$)	2005			
	Kiniero mine Guinea	Samira Hill mine Niger	Others	Total
Gold sales	21,945	36,815	-	58,760
Net gain (loss) on gold sales contracts	(651)	571	-	(80)
Revenue	21,294	37,386	-	58,680
Mining operations expenses	18,728	23,271	-	41,999
Amortization of property, plant and equipment	4,148	9,860	30	14,038
Mining operation				
Gold sales (ounces)	61,864	95,181	-	157,045
Average selling price (\$/ounce sold)	355	387	-	374
Total cash cost (\$/ounce sold) ¹	304	244	-	268

Year ended December 31 (in thousands \$)	2004			
	Kiniero mine Guinea	Samira Hill mine Niger	Others	Total
Gold sales	13,689	7,077	-	20,766
Net loss on gold sales contracts	(2,232)	(1,253)	-	(3,485)
Revenue	11,457	5,824	-	17,281
Mining operations expenses	12,842	4,307	-	17,149
Amortization of property, plant and equipment	3,423	1,860	31	5,314
Mining operation				
Gold sales (ounces)	40,602	19,138	-	59,740
Average selling price (\$/ounce sold)	337	370	-	347
Total cash cost (\$/ounce sold) ¹	305	225	-	278

¹ Represents the cash operating cost plus royalties and taxes paid to the local government

Gold sales

Gold sales for the year 2005 totalled \$58,760,000 compared to \$20,766,000 in 2004. In 2005, we sold a total of 157,045 ounces of gold at an average price of \$374 per ounce compared to the sale of 59,740 ounces of gold at an average price of \$347 per ounce in 2004. This considerable increase in sales is mainly due to the Samira Hill mine contribution, to the gold production increase at Kiniero and to the increase of the market's price of gold.

Kiniero

In 2005, we sold 61,864 ounces of gold from the Kiniero mine at an average price of \$355 per ounce compared to the sales of 40,602 ounces of gold at an average price of \$337 per ounce in 2004. In 2005, only 36,119 ounces of gold were delivered according to our gold sales contracts at an average price of \$295 per ounce and 25,745 ounces of gold were sold at an average market price of \$439 per ounce. Following the settlement of the gold sales contracts of Kiniero in December 2005, nearly the whole production will be sold at market price in 2006.

Samira Hill

In 2005, we sold 95,181 ounces of gold from the Samira Hill mine at an average price of \$387 per ounce compared to the sales of 19,138 ounces of gold at an average price of \$370 per ounce in 2004. In 2005, we sold 13,107 ounces of gold at an average market price of \$468 per ounce and 82,074 ounces of gold according to our gold sales contract program at an average price of \$374 per ounce. The 2004 gold sales were all delivered according to our gold sales contracts program.

Net loss on gold sales contracts

During 2005, the net loss on the gold sales contracts totalled \$80,000 compared to \$3,485,000 in 2004. The loss on gold sales contracts depends on the spot price on the deferral date compared to our contracts sales price. This loss does not represent an obligation for payment, but the replacement value of the contract, based on market conditions prevailing on the deferral dates.

Kiniero

In 2004, we restructured our gold sales contracts program in order to reduce the quantity of ounces to be delivered every month. This restructuring lead to the deferral of positions on future years. These deferrals generated an unrealized loss on gold sales contracts of \$1,433,000.

In 2004, we had deferred positions totalling 5,267 ounces to 2005, which generated an unrealized loss of \$781,000. In 2005, our commitments related to those positions were fulfilled, therefore generating deferred revenue of the same amount.

Hence, deliveries according to gold sales contracts at Kiniero generated an unrealized loss of \$651,000 during 2005.

Samira Hill

In 2004, we also deferred positions totalling 19,397 ounces to 2005, which generated an unrealized loss of \$1,253,000. In 2005, our commitments related to these positions were fulfilled, therefore generating deferred revenue of the same amount.

During 2005, we also deferred positions, which led to an unrealized loss of \$769,000.

The swap of interest rate related to the gold sales contracts is effective since the beginning of the second quarter of 2005. This swap leads to a total gain of \$693,000. From this gain, \$88,000 is accounted for in the consolidated statements of operations and deferred revenue of \$605,000 is presented in the liabilities.

Hence, deliveries according to gold sales contracts at Samira Hill generated an unrealized gain of \$571,000 during 2005.

Mining operating expenses

Mining operating expenses for the year ended December 31, 2005, totalled \$41,999,000, compared to \$17,149,000 for the year 2004. These expenses represent the production costs of 157,045 ounces of gold in 2005 at a total cash cost of \$268 per ounce compared to the production of 59,740 ounces of gold at a total cash cost of \$278 per ounce in 2004.

Kiniero

Mining operating expenses totalled \$18,728,000 in 2005 compared to \$12,842,000 in 2004. These expenses represent the production costs of 61,864 ounces in 2005, at a total cash cost of \$304 per ounce compared to the production of 40,602 ounces in 2004 at a total cash cost of \$305 per ounce. The increased tonnage made up for the higher price of the fuel and other consumables. The variation of inventory write-down was necessary to present our gold inventories at the lower of cost and fair market value.

Reconciliation of total cash cost per ounce to financial statements

Years ended December 31	2005	2004
	\$	\$
Mining operating expenses as per financial statements (in thousands \$)	18,728	12,842
Inventory write-down variation (in thousands \$)	101	(457)
Mining operating expenses for per ounce calculation (in thousands \$)	18,829	12,385
Gold sales (ounces)	61,684	40,602
Total cash costs (\$/ounce sold)	304	305

The total cash cost is calculated using the Gold Institute Guidelines.

Samira Hill

Mining operating expenses at Samira Hill totalled \$23,271,000 in 2005 compared to \$4,307,000 in 2004. These expenses represent the production costs of 95,181 ounces in 2005, at a total cash cost of \$244 per ounce compared to the production of 19,138 ounces in 2004 at a total cash cost of \$225 per ounce. This increase in production cost is mainly explained by the higher cost of the fuel and other consumables which affected the mining industry in 2005 and by the increase in the extraction costs due to the blasting of the ore in the transition zone.

Reconciliation of total cash cost per ounce to financial statements

Years ended December 31	2005	2004
	\$	\$
Mining operating expenses as per financial statements (in thousands \$)	23,271	4,307
Gold sales (ounces)	95,181	19,138
Total cash costs (\$/ounce sold)	244	225

The total cash cost is calculated using the Gold Institute Guidelines.

Amortization of property, plant and equipment

At Kiniero, the amortization expense amounted to \$14,008,000 for the year 2005 compared to an amortization expense of \$5,283,000 for the year 2004. The amortization expense per ounce sold is \$89 in 2005 compared to \$88 in 2004. This increase in the amortization expense is due to the start-up of the Samira Hill mine. The amortization of the Samira Hill's property, plant and equipment began during the last quarter of 2004.

Almost all of the amortization expense arises from Kiniero's and Samira Hill's property, plant and equipment used in the operations. The majority of this property, plant and equipment mainly represents deferred exploration and development expenditures and buildings and equipment related to mining production. They are amortized using the units of production method over the expected operating life of the mine based on estimated recoverable ounces of gold.

Kiniero

The amortization expense totalled \$4,148,000 for the year 2005 compared to \$3,423,000 for the same period in 2004. The amortization expense per ounce is \$67 in 2005 compared to \$84 in 2004. The increase of the proven and probable reserves used as calculation basis for the amortizations resulted in the decrease of the amortization expense per ounce which was partially offset by the start-up of the second ball mill at the end of 2004.

Reconciliation of amortization of property, plant and equipment per ounce to financial statements

Years ended December 31	2005	2004
	\$	\$
Amortization of property, plant and equipment as per financial statements (in thousands \$)	4,148	3,423
Gold sales (ounces)	61,864	40,602
Amortization (\$/ounce sold)	67	84

Samira Hill

The Samira Hill amortization expense amounted to \$9,860,000 for the year 2005, compared to \$1,860,000 for the same period in 2004. The amortization expense per ounce is \$104 in 2005 compared to \$97 in 2004. This increase in the amortization expense per ounce is the result of the increase in the property, plant and equipment at Samira Hill.

Reconciliation of amortization of property, plant and equipment per ounce to financial statements

Years ended December 31	2005	2004
	\$	\$
Amortization of property, plant and equipment as per financial statements (in thousands \$)	9,860	1,860
Gold sales (ounces)	95,181	19,138
Amortization (\$/ounce sold)	104	97

Administration

Administration expenses went from \$2,272,000 in 2004, to \$3,057,000 for the year 2005. This increase in administration expense is due mainly to an increase in our activities in 2005.

Stock-based compensation

During the year 2005, the stock-based compensation expense totalled \$220,000, compared to \$790,000 in 2004. The consideration of these costs was credited to the contributed surplus account. A total of 150,000 new options were issued in 2005 compared to 1,945,000 new options for the same period in 2004.

Loss on settlement of gold sales contracts

On December 30, 2005, following the favourable outlook of the gold price, the company redeemed most of its gold sales contracts of Kiniero, for a total amount of \$13,290,000, generating a loss of the same amount.

However, some of these gold sales contracts concern positions, initially scheduled before December 30, 2005, but not delivered yet at the settlement date, which led to the reversing of unrealized losses on gold sales contracts, for an amount of \$4,721,000.

Therefore, this settlement of gold sales contracts generated a net loss of \$8,569,000, accounted for in the consolidated statements of operations.

Write-down and write-off of mining assets

During the year 2005, the company completely revaluated its mining portfolio and decided to write down the Kossaken project for an amount of \$910,000. In 2004, the company wrote-off the costs related to the Hana Lobo project in Ivory Coast for an amount of \$379,000.

Write-down of short-term investments

As at December 31, 2005, we had investments in publicly traded companies which are presented as short-term investments. For some of these publicly trade companies, the share market price has dropped in 2005. As at December 31, 2005, we therefore wrote-down the value of those investments to their fair market value, generating a \$773,000 loss accounted for in the consolidated statement of operations. As at December 31, 2005, the book value of these investments was \$5,337,000 and their fair market value was \$5,493,000, therefore representing a potential gain of \$156,000. As at March 14, 2006, the fair market value of these short-term investments is \$6,675,000.

Gain on disposal of investment in subsidiaries

In June 2005, the company sold all of its interests in Ebi (Ghana) Limited, owner of the Tinga permit, for a consideration valued at \$1,019,000 representing 3,300,000 common shares of Birim Goldfields inc. issued upon closing. The book value of the investment in Ebi (Ghana) Limited being at \$1,388,000, this transaction resulted in a loss on disposal of investment in a subsidiary of \$369,000. During the same period in 2004, the company realized a gain of \$7,323,000 on the disposal of investment in subsidiaries.

Interest on long-term debt

Interest on long-term debt increased from \$971,000 for the year ended December 31, 2004 to \$2,154,000 for the same period in 2005. This significant increase is due mainly to the start-up of the Samira Hill mine. Indeed, until September 30, 2004, the interest on long-term debt which debt was used to finance the Samira Hill construction, was accounted for in mining assets. These interests is accounted for in the consolidated statement of operations since October 1, 2004.

Foreign exchange loss

During the year ended December 31, 2005, we recorded a foreign exchange loss of \$162,000 compared to \$778,000 for the same period in 2004. These foreign exchange losses are mainly due to an advance payable to a minority interest, denominated in foreign currency at the exchange rate prevailing at the end of the year. This advance is non-interest bearing and has no specific terms of repayment.

CASH FLOW STATEMENTS**Operating**

Operating activities, before net changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment, used liquidities of \$1,899,000 for the year-ended December 31, 2005, compared to a cash flow of \$56,000 for the same period in 2004. Excluding the loss on settlement of gold sales contracts of an amount of \$8,569,000 included in the 2005 net loss, the operating activities, before net change in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment generated positive cash flows of \$11,391,000. This significant increase is mainly due to the 2005 contribution of the Samira Hill mine, to the increase in gold production at Kiniero and to the increase of the gold market price.

In 2005, the working capital items used liquidities of \$6,431,000 compared to 2004 where \$2,693,000 was used. In 2005, liquidities of \$4,313,000 were invested in inventories mainly in the stock piles at Samira Hill in order to create a security inventory. In 2004, a major increase incurred in the accounts payable and accrued liabilities in relation with the construction activities at the Samira Hill mine.

Financing

On December 21, 2005, the company realized a private placement of 40,000,000 shares for a consideration of \$55,750,000. Furthermore 3,520,000 warrants have been exercised for a consideration of \$3,949,000.

During the year, we reimbursed \$5,900,000 of our long-term debt as scheduled. Moreover, in order to reduce our level of debt and our interest charges, we executed prepayments on our long-term debt for a total amount of \$15,375,000. In 2004, we received \$17,915,000 in long term debt to finance the Samira Hill project.

Investing

During the year 2005, liquidities of \$1,550,000 was invested in mining assets compared to \$19,565,000 for the same period in 2004. In 2005, we invested \$593,000 for the feasibility study and exploration on the Mana property. Moreover, we invested \$957,000 on other exploration projects. In 2004, the majority of investments were related to the construction of the Samira Hill mine.

Investments of \$8,815,000 in property, plant and equipment were made in 2005, compared to \$4,470,000 in 2004. Investments of approximately \$2,500,000 in 2005 mainly include exploration work at Kiniero and Samira Hill mines, and also \$4,200,000 of investment related to the Samira Hill facilities. Furthermore, the stripping costs increased by \$1,178,000. In 2004, investments mainly represent expenditure related to the commissioning of the second ball mill and exploration expenditures at Kiniero.

FINANCIAL POSITION

As at December 31, 2005, the company benefits from a solid financial situation with more than \$29,000,000 of working capital, including \$27,500,000 in cash and cash equivalents and short-term investments.

The company's cash requirements over the next twelve months are primarily to fund:

- Development of the Mana project in Burkina Faso
- Exploration programs
- Purchase of mining equipments

The capital costs relating to the development of the Mana project are estimated at \$48,500,000. Discussions relating to the financing are on-going.

The company has demonstrated its ability to raise additional funds through capital markets and financial institutions for further cash requirements to fund its projects.

BALANCE SHEETS

The company's total assets amounted to \$128,054,000 as at December 31, 2005, compared to \$109,616,000 as at December 31, 2004. This increase of \$18,438,000 is mainly due to the increase in cash and cash equivalents. This variation is explained in the consolidated statement of cash flows.

Total liabilities amounted to \$35,368,000 as at December 31, 2005 compared to \$59,918,000 as at December 31, 2004. As previously mentioned, the company reimbursed its long-term debt in 2005 for a total of \$21,275,000.

The share capital totalled \$150,222,000 as at December 31, 2005 compared to \$89,426,000 as at December 31, 2004. This \$60,796,000 increase is mainly the result of the private placement made in December 2005 for a consideration of \$55,750,000 and warrants have been exercised for a consideration of \$3,949,000.

CRITICAL ACCOUNTING ESTIMATES

The critical accounting estimates are estimates that are highly uncertain and for which changes in those estimates could materially impact our results and financial situation.

Mineral reserves estimates

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

Semafo's proven and probable reserves as at December 31, 2005 are 1,973,300 ounces.

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

Our reserves estimates may have a great impact on the information contained in our financial statements. A large portion of our property, plant and equipment is amortized 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-reserved material when sufficient objective evidence exists to support a conclusion that it is probable the non-reserve material will be produced. A decrease of our mineral reserves would increase amortization expense and this could have a material impact on our operating results.

Periodically, we perform ceiling test to assess the realizable value of our property, plant and equipment and mining assets. Mineral reserves estimates are the most important variable in those amortization tests. A decrease of our reserves could jeopardize the net realizable value of assets and could lead to an important loss.

As described in our accounting policies, in some cases, stripping costs may be capitalized and presented on the balance sheet until being expensed, based on an estimated stripping ratio. Changes in mineral reserves estimates may greatly impact the forecasted stripping ratio, which would affect stripping costs carried on the balance sheet and may have a material impact on our operating results.

Estimated cash flows relating to the asset retirement obligations may also be affected by the quantity or the quality of our reserves, which may lead to an unexpected liability and may have a material impact on our operating results.

OFF-BALANCE SHEET TRANSACTIONS

Gold sales contracts

Given the current market conditions, our strategy is to sell our gold in the open market at spot price. However, in order to obtain the necessary financings for the development of our projects, we had to hedge part of our production.

As at December 31, 2005, we had commitments to deliver 201,000 ounces of gold over the next four years at an average price currently valued at \$364 per ounce.

		2006	2007	2008	2009	Total
Adjustable gold sales contracts^{1,2}						
Ounces	(in thousands)	32	25	24	18	99
Average price	(\$ per ounce)	389	360	360	360	369
Fixed gold sales contracts¹						
Ounces	(in thousands)	35	25	24	18	102
Average price	(\$ per ounce)	357	360	360	360	359
Total gold sales contracts						
Ounces	(in thousands)	67	50	48	36	201
Average price	(\$ per ounce)	372	360	360	360	364

¹ Positions totalling 192,000 ounces include a swap of interest rate. Pursuant to the swap agreement, the company is committed to pay the difference between the "LIBOR" USD three (3) months and the "GOFO" three (3) months interest rate, whereas the counterparty is committed to pay a fixed interest rate of 1% per annum.

² The price of the adjustable gold sales contract program may reach up to \$390 per ounce. The adjustments depend on the prevailing spot price on different dates during the term of the program.

Kiniero

During the first quarter of 2004, we restructured our Kiniero's forward sales program. This restructuring reduces the monthly quantity of ounces to be delivered under our forward sales program from 3,333 ounces to 2,571 ounces, representing a yearly total of 30,852 ounces, which allowed us to sell a greater quantity of gold ounces at spot price.

On December 30, 2005, in response to the favourable outlook of the gold price, the company redeemed 59,128 ounces representing the majority of its gold sales contracts of Kiniero.

Consequently, as at December 31, 2005, our commitments are limited to the delivery of 2,571 ounces of gold, at a price of \$296 per ounce, in January 2006.

Samira Hill

During the year 2003, we have signed gold sales contracts for the Samira Hill project, for a total of 300,000 ounces over the period from 2004 to 2009. The fixed gold sales contract sets a fixed price of \$360 per ounce for 150,000 ounces and the adjustable gold sales contract for 150,000 ounces. This adjustable gold sales contract has a floor price of \$360 per ounce that can reach up to \$390 per ounce depending of the gold market prices at different dates over the course of the contract. Some of those positions include a swap of interest rate according to which we pay a variable rate and we receive a fixed rate.

In 2005, we adjusted the price for positions totalling 29,004 ounces, to be delivered in 2006 at a price at \$390 per ounce.

As at December 31, 2005, we are committed to deliver 198,324 ounces of gold at an average price of \$365 per ounce over the years 2006 to 2009.

Contractual obligations and commitments

Long-term debt

Pursuant to our long-term debt agreements as disclosed in note 10 of our consolidated financial statements, reimbursements required in each of the next four years are as follows:

	\$
2006	3,036,000
2007	3,036,000
2008	2,768,000
2009	2,500,000

Assets retirement obligations

Our operations are governed by a Mining agreement governing the protection of the environment. The company conducts its operations in order to protect the public health and the environment. We will implement progressive measures for rehabilitation work during the operation, closing down and follow-up work upon closing of the mine. The estimated undiscounted cash flow required to settle the assets retirement obligations is \$2,720,000. Those disbursements are projected to be made during the years 2006 to 2014. The amount accounted for as liabilities in our consolidated financial statements represents the discounted obligations from the rehabilitation and closing plans.

Royalties and Development Taxes

Pursuant to our mining agreement, we have royalty commitments, which generate obligations upon gold deliveries. If our mining projects do not produce gold, we have no payment obligation. For each gold delivery from the Kiniero mine in 2005, we had a royalty obligation corresponding to 5% of the delivery's value, evaluated at the spot price on the delivery date. The gold deliveries coming from the Samira Hill mine in Niger, are submitted to a royalty payment of 5.5% of the delivery's value, evaluated at the spot price on the delivery date. In Guinea, we are also committed to invest 0.4% of our gold sales in local development expenditures.

Payments to maintain our mining rights

In the normal course of business, in order to obtain and maintain all the advantages of our permits, we have to commit to invest a specific amount in exploration and development on the permits during their validity period. Moreover, we have to make annual payments in order to maintain certain property titles.

Mining Contract

In 2003, the company signed a mining contract for the Samira Hill mine. The payments will be made over the approximated seven-year mine life. As at December 31, 2005, the company is liable for a maximum amount of \$4,000,000, which represents the indemnity payable should an early termination occurs.

Fuel Purchase Contract

In 2004, the company signed an exclusive fuel procurement contract for the Samira Hill mine covering a period of seven years. As at December 31, 2005, the company is liable for a maximum amount of \$325,000 which represents the indemnity payable if an early termination occurs.

Mining Equipments Purchase Contract

In order to acquire a greater autonomy on our operations, we decided to perform the mining activities and civil engineering works ourselves. Accordingly, we purchased a fleet of new mining equipments for \$7,800,000. This equipment will be in operation at the end of the 2006 summer.

RELATED PARTY TRANSACTIONS

During the year, the company reported the following related party transactions:

Years ended December 31 (in thousands \$)	2005 \$	2004 \$
Technical services fees, management fees, commission fees, salary charges, operator fees and guarantee fees charged by Managem S.A.	1,827	2,989
Professional fees charged by companies controlled by directors	342	205

The accounts payable and accrued liabilities include an amount of \$37,000 (\$2,712,000 in 2004) due to Managem S.A.

In 2005, Managem S.A. received a guarantee fee on the long-term debt of \$527,000 (\$479,000 in 2004) directly from the lender.

Following a transaction between shareholders dated December 21, 2005, Managem S.A. considerably reduced its participation in the company from 53% to less than 10%.

RISKS AND UNCERTAINTIES

As a mining producing company, we face the environmental, operational, financial and political risks inherent to the nature of our activities. These risks may affect our profitability and level of our operating cash flow. We also face risks stemming from other factors, such as fluctuations in gold prices, exchange rates, interests rates and financial market conditions in general.

Financial Risks

The following summarizes key financial risks:

Currency

Even if we operate in West Africa, all our revenues coming from the sales of gold, approximately 80% of our operating costs and 90% of our exploration and development costs are denominated in US dollars. Our main currency risks are related to head office administrative expenses, which are mainly in Canadian dollars, the expenses in West African currencies and to an advance to a subsidiary's minority shareholder, denominated in Canadian dollars.

Interest Rate

We, as a borrower, are subject to movement in interest rates on our long-term debt.

Consumables prices

The price of petroleum is affecting our operating costs because of the use of fuel to generate electrical energy to supply the whole plants.

Access to Capital Markets

To fund our growth, the company is 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. To ensure the availability of capital, we maintain an investor relations program in order to inform all shareholders, and potential investors of the company's developments.

Operational Risks

Mining is subject to various operational risks and uncertainties, including:

Mineral Reserves

Mineral reserves are an estimate of mineral content based on limited information acquired through drilling and other sampling methods. Successful extraction is based on safe and efficient mining and processing. In order to minimize the risks, we establish quality control programs and we estimate our reserves in accordance with guidelines and standards within the mining industry and the security commission. Furthermore, we employ experienced mining engineers and we use the service of experienced mining sub-contractors to extract the ore from our deposits.

Safety and Other Hazards

The mining industry is characterized by significant risks. To minimize these risks, we provide training and awareness programs to our employees to continuously improve work practices and working environment.

Environmental Hazard

We are subject to various environmental incidents that can have a significant impact on our operations. To mitigate these risks, we maintain an environmental management system including an annual review, by independent experts, of operational plans and practices together with an emergency plan to deal with any incidents.

QUARTERLY INFORMATION

(unaudited, in accordance with Canadian Generally Accepted Accounting Principles)

	First Quarter 2005	Second Quarter 2005	Third Quarter 2005	Fourth Quarter 2005	Year 2005	First Quarter 2004	Second Quarter 2004	Third Quarter 2004	Fourth Quarter 2004	Year 2004
Results and financial situation (in thousands \$, except for amounts per share)										
Gold sales	12,581	15,827	16,585	13,767	58,760	3,144	4,050	4,982	8,590	20,766
Net gain (loss) on gold sales contracts	917	(350)	101	(748)	(80)	(168)	21	(1,624)	(1,714)	(3,485)
Revenues	13,498	15,477	16,686	13,019	58,680	2,976	4,071	3,358	6,876	17,281
Net income (net loss)	(821)	32	1,062	(13,755)	(13,482)	3,897	1,186	(3,643)	(6,381)	(4,941)
Net income (net loss) per share, basic and diluted	(0.01)	0.01	0.01	(0.14)	(0.14)	0.04	0.01	(0.04)	(0.07)	(0.05)
Balance sheet										
Cash and cash equivalents	3,130	6,702	7,723	22,208	22,208	8,439	2,214	4,006	4,507	4,507
Total assets	110,788	113,847	113,628	128,054	128,054	99,878	101,849	108,982	109,616	109,616
Total long-term debt (including the short-term portion)	31,365	29,802	29,661	11,340	11,340	18,500	19,735	26,735	32,615	32,615
KINIERO										
Mining operation										
Gold sales (ounces)	14,710	19,659	16,207	11,288	61,864	9,709	12,798	13,727	4,368	40,602
Average sales price (\$/ounce sold)	293	390	367	357	355	324	316	363	347	337
Total cash costs (\$/ounce sold)	312	261	276	413	304	308	286	328	284	305
Operating statistics										
Plant throughput (tonnes)	160,071	163,851	150,523	142,635	617,080	99,910	119,977	150,583	41,478	411,948
Head-grade (g/tonne)	3.49	3.74	3.60	2.16	3.28	3.45	3.52	2.89	4.32	3.36
Recovery rate (%)	93	93	93	94	93	93	93	94	94	93
Gold production (ounces)	16,821	18,155	16,291	10,149	61,416	10,107	12,682	13,190	5,070	41,049
Cash Operating Cost (\$/ounce produced)	263	231	253	412	276	280	261	301	299	283
SAMIRA HILL										
Mining operation										
Gold sales (ounces)	22,216	21,987	26,841	24,137	95,181	-	-	-	19,138	19,138
Average sales price (\$/ounce sold)	372	371	396	404	387	-	-	-	370	370
Total cash costs (\$/ounce sold)	238	231	221	289	244	-	-	-	225	225
Operating statistics										
Plant throughput (tonnes)	360,544	307,062	410,526	295,449	1,373,581	-	-	-	398,411	398,411
Head-grade (g/tonne)	2.05	2.37	2.62	2.62	2.41	-	-	-	2.03	2.03
Recovery rate (%)	89	88	90	86	88	-	-	-	89	89
Gold production (ounces)	23,137	20,030	31,272	22,055	96,494	-	-	-	21,521	21,521
Cash Operating Cost (\$/ounce produced)	210	204	197	262	216	-	-	-	192	192

FOURTH-QUARTER RESULTS

For the fourth quarter of 2005, the gold sales totalled \$13,767,000 representing the gold sales of 35,425 ounces at an average price of \$389 per ounce. During the same period in 2004, gold sales totalled \$8,590,000 representing the gold sale of 23,506 ounces at an average price of \$365 per ounce. This 60% increase in gold sales is the result of the increase of the market's price of gold in 2005 compared to 2004 and to the increase in the production at Samira Hill and Kiniero mines. During the fourth quarter of 2004, the Kiniero mine encountered mechanical problems.

Throughout the last quarter of 2005, we have produced a total of 32,204 ounces of gold at a cash operating cost of \$309 per ounce compared to a production of 26,589 ounces at a cash operation cost of \$212 per ounce for the same period in 2004. This increase in the cash operating cost is mainly due to the reduction of the head-grade of the ore processed during the fourth quarter of 2005 compared to the same period in 2004 and by the higher cost of the fuel and other consumables which affected the mining industry in 2005.

For the fourth quarter of 2005, the net loss is \$13,755,000 compared to a net loss of \$6,381,000 for the same period in 2004. As explained previously. This variation is mainly due to the loss on settlement of gold sales contracts for an amount of \$8,569,000.

INFORMATION ON OUTSTANDING SHARES

As at March 14, 2006, Semafo's share capital is comprised of 134,460,524 common shares issued and outstanding. Moreover, 5,458,237 warrants were outstanding. These warrants are expiring between December 2006 and December 2008.

The company has a stock option plan for its employees, officers, consultants, directors and those of its subsidiaries. The plan provides for the grant of non-transferable options for the purchase of common shares. As at March 14, 2006, stock options allowing its holder to purchase 2,228,000 common shares were outstanding.

ADDITIONAL INFORMATION

Exchange rates are as follows:

\$CA/\$US	2005	2004
March 31 (closing)	1.2096	1.3105
June 30 (closing)	1.2256	1.3404
September 30 (closing)	1.1611	1.2639
December 31 (closing)	1.1659	1.2036
Fourth quarter (average)	1.1733	1.2203
Year (average)	1.2116	1.3013

Forward-looking Statements

This report contains « forward-looking statements », including, but not limited to, the statements regarding the company's expectations as to the market price of gold, strategic plans, use of hedging instruments, future commercial production, production targets, timetables, mine operating costs, property, plant and equipment expenses, exploration budgets, mineral reserve and resource estimates and to the company's perspectives. Forward-looking statements express, as at the date of this report, our estimates, forecasts, projections, expectations and beliefs as to future events or results. Forward-looking statements are reasonable, but involve a number of risks and uncertainties, many of which are beyond the company's control, and there can be no assurance that such statements will prove to be accurate. Therefore, actual results and future events could differ materially from those anticipated in such statements. Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward-looking statements include, but are not limited to, factors associated with fluctuations in the market price of precious metals, mining industry risks, uncertainty as to calculation of mineral reserves and resource, risks related to the grade of reserves, risks related to hedging strategies, risks of delays in construction and requirements of additional financing. The company does not undertake to update any forward-looking statement that is contained in this MD&A.

Disclosure controls and procedures

Disclosure controls and procedures have been established by the company to ensure that financial information disclosed by the company in this Management's Discussion Analysis, in the consolidated financial statements, and in the related annual filings of the company is properly recorded, processed, summarized and reported to the company's Audit Committee and to the Board of Directors. The company's management has a process to evaluate the effectiveness of the aforementioned controls and procedures, and is satisfied, as at December 31, 2005, that they are adequate for ensuring that complete and reliable financial information is produced.

Additional Information and Continuous Disclosure

This MD&A has been prepared as of March 14, 2006. Additional information on the company is available through regular filings of press releases, quarterly financial statements and its Annual Information Form on SEDAR (www.sedar.com).

SEMAFO inc.

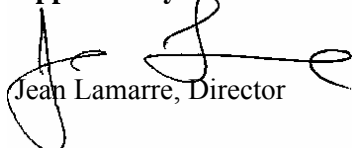
Consolidated Balance Sheets

As at December 31, 2005 and 2004

(expressed in thousands of U.S. dollars)

	2005 \$	2004 \$
Assets		
Current assets		
Cash and cash equivalents	22,208	4,507
Short-term investments (fair market value: \$5,493; 2004 – \$6,150) (note 3)	5,337	5,742
Accounts receivable	2,077	946
Inventories (note 4)	11,671	7,571
Other short-term assets (note 5)	2,166	1,635
	<u>43,459</u>	<u>20,401</u>
Restricted cash (note 9)	1,250	-
Property, plant and equipment (note 6)	73,134	77,468
Mining assets (note 7)	9,934	10,632
Other assets (note 8)	277	1,115
	<u>128,054</u>	<u>109,616</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	10,451	11,536
Current portion of long-term debt (note 9)	3,036	11,900
Deferred revenues (note 10)	952	2,034
	<u>14,439</u>	<u>25,470</u>
Long-term debt (note 9)	8,304	20,715
Deferred revenues (note 10)	422	3,288
Advances payable (note 11)	8,912	8,710
Asset retirement obligations for property, plant and equipment (note 12)	1,910	1,156
Minority interest	1,381	579
	<u>35,368</u>	<u>59,918</u>
Shareholders' Equity		
Share capital (note 13)	150,222	89,426
Contributed surplus (note 14)	929	884
Deficit	(58,465)	(40,612)
	<u>92,686</u>	<u>49,698</u>
	<u>128,054</u>	<u>109,616</u>

Approved by the Board


Jean Lamarre, Director


Benoit La Salle, Director

SEMAFO inc.

Consolidated Statements of Deficit

For the years ended December 31, 2005 and 2004

(expressed in thousands of U.S. dollars)

	2005	2004
	\$	\$
Deficit — Beginning of year	(40,612)	(35,671)
Share issue expenses (note 13)	(4,371)	-
Net loss for the year	(13,482)	(4,941)
Deficit — End of the year	<u>(58,465)</u>	<u>(40,612)</u>

SEMAFO inc.

Consolidated Statements of Operations For the years ended December 31, 2005 and 2004

(expressed in thousands of U.S. dollars, except for amounts per share)

	2005 \$	2004 \$
Revenue		
Gold sales	58,760	20,766
Net loss on gold sales contracts (note 10)	(80)	(3,485)
	<u>58,680</u>	<u>17,281</u>
Expenses		
Mining operations	41,999	17,149
Amortization of property, plant and equipment	14,038	5,314
Administration	3,057	2,272
Stock-based compensation (note 13)	220	790
Loss on settlement of gold sales contracts (note 10)	8,569	-
Accretion expense of asset retirement obligations (note 12)	92	38
Write-down and write-off of mining assets (note 7)	910	379
	<u>68,885</u>	<u>25,942</u>
Loss before the undernoted items	(10,205)	(8,661)
Interest, financing fees and other income	199	62
Write-down of short-term investments (note 3)	773	2,819
Gain on disposal of short-term investments (note 3)	(1,492)	-
Loss (gain) on disposal of investment in subsidiaries (note 15)	369	(7,323)
Gain on disposal of mining assets (note 15)	-	(268)
Interest on long-term debt	2,154	971
Amortization of deferred financing costs	310	42
Foreign exchange loss	162	778
	<u>(12,680)</u>	<u>(5,742)</u>
Loss before minority interest	(12,680)	(5,742)
Minority interest in a subsidiary's net income (loss)	802	(801)
	<u>(13,482)</u>	<u>(4,941)</u>
Net loss for the year	(13,482)	(4,941)
Basic and diluted loss per share	(0.14)	(0.05)
Weighted average number of outstanding common shares for the calculation of basic and diluted loss per share	<u>93,289,000</u>	<u>90,197,000</u>

SEMAFO inc.

Consolidated Statements of Cash Flows For the years ended December 31, 2005 and 2004

(expressed in thousands of U.S. dollars)

	2005 \$	2004 \$
Cash flows from		
Operating activities		
Net loss for the year	(13,482)	(4,941)
Items not affecting cash and cash equivalents		
Net loss on gold sales contracts	80	3,485
Amortization of property, plant and equipment	14,038	5,314
Stock-based compensation	220	790
Deferred revenue on swap of interest rate related to gold sales contracts	(4,721)	-
Accretion expense of asset retirement obligations	92	38
Bad debt expense	-	133
Write-down of short-term investments	773	2,819
Gain on disposal of short-term investments	(1,492)	-
Write-down and write-off of mining assets	910	379
Loss (gain) on disposal of investment in subsidiaries	369	(7,323)
Gain on disposal of mining assets	-	(268)
Amortization of deferred financing costs	310	42
Unrealized foreign exchange loss on advances payable	202	389
Minority interest in a subsidiary's net income (loss)	802	(801)
	<u>(1,899)</u>	<u>56</u>
Net changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment		
Accounts receivable	(1,131)	(375)
Inventories	(4,313)	(4,007)
Other assets	(531)	(266)
Accounts payable and accrued liabilities	(1,085)	1,985
Settlement of liabilities related to asset retirement obligations for property, plant and equipment	(64)	(30)
Deferred revenue on swap of interest rate related to gold sales contracts	693	-
	<u>(6,431)</u>	<u>(2,693)</u>
	<u>(8,330)</u>	<u>(2,637)</u>
Financing activities		
Long-term debt	-	17,915
Reimbursement of long-term debt	(21,275)	(5,000)
Issuance of share capital	59,815	166
Share issue expenses	(3,565)	-
	<u>34,975</u>	<u>13,081</u>

SEMAFO inc.Consolidated Statements of Cash Flows ...*continued***For the years ended December 31, 2005 and 2004**

(expressed in thousands of U.S. dollars)

	2005	2004
	\$	\$
Investing activities		
Acquisition of short-term investments	(440)	353
Proceeds on disposal of short-term investments	2,583	-
Additions to mining assets	(1,550)	(19,565)
Disposal of interest in subsidiaries	445	496
Additions to property, plant and equipment	(8,815)	(4,470)
Deferred financing costs	83	(172)
Increase in restricted cash	(1,250)	-
	<u>(8,944)</u>	<u>(23,358)</u>
Net change in cash and cash equivalents during the year	17,701	(12,914)
Cash and cash equivalents – Beginning of year	<u>4,507</u>	<u>17,421</u>
Cash and cash equivalents – End of year	<u>22,208</u>	<u>4,507</u>

Supplemental schedule of non-cash items

	2005	2004
	\$	\$
Increase in advances payable allocated to mining assets	-	18
Amortization of deferred financing costs allocated to mining assets	-	143
Amortization of property, plant and equipment allocated to mining assets	50	22
Net effect of amortization of property, plant and equipment allocated to inventories	(213)	754
Transfer of mining assets to property, plant and equipment	-	59,487
Asset retirement obligations	726	670
Transfer of other long-term assets to short-term investments	-	383
Share compensation on disposal of mining assets	1,019	268

Supplemental information

Interest paid during the year	2,250	1,076
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SEMAFO inc.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(expressed in U.S. dollars except where otherwise indicated; amounts in tables are presented in thousands of U.S. dollars)

1 Incorporation and nature of activities

The company was incorporated under Part IA of the Quebec Companies Act.

The company and its subsidiaries are engaged in gold mining and related activities, including exploration, development and operations. These activities are conducted in West Africa. The company and its subsidiaries now own and operate two gold mines in Guinea and Niger. The Niger mine started producing gold in October 2004.

The company and its subsidiaries have interests in mining properties currently at the exploration or development stage. Certain of these properties are in the process of evaluation to determine the economics of putting them into production. The potential for recovery of costs incurred on these properties and of related deferred charges depends on the existence of sufficient quantities of reserves, obtaining all required permits, the company's ability to obtain appropriate financing to put these properties into production, and the ability to realize a profitable return for the company.

2 Significant accounting policies

The U.S. dollar is the functional currency used to measure the company's operations. The consolidated financial statements of the company have been prepared in U.S. dollars and in accordance with Canadian generally accepted accounting principles.

Basis of consolidation

The consolidated financial statements of Semafo inc. include the accounts of the company and all its subsidiaries held directly or indirectly. All intercompany transactions and balances have been eliminated.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to estimated recoverable ounces of gold, useful life of assets for amortization purposes and for the evaluation of their net recoverable amount, the provision for site restoration costs and the calculation of the stock-based compensation expenses. Actual results could differ from those estimates.

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 an original maturity of three months or less.

Investments

Short-term investments are recorded at the lower of cost and fair market value. Long-term investments are recorded at cost unless impairment in market value is considered other than temporary, in which case they are recorded at their net realizable value.

SEMAFO inc.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(expressed in U.S. dollars except where otherwise indicated; amounts in tables are presented in thousands of U.S. dollars)

2 Significant accounting policies (continued)

Inventories

Gold (ingots and gold in circuit) and ore in stockpiles are valued at the lower of cost and net realizable value. Cost is evaluated using the first-in, first-out method.

Supplies and spare parts are valued at the lower of cost and replacement value. Cost is evaluated using the average cost method.

Property, plant and equipment

i) Property acquisition costs, deferred exploration and development costs

When a project is brought into commercial production, property acquisition costs and deferred exploration and development costs are transferred to the various asset categories. Amortization 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 the non-reserve material will be produced. Exploration costs incurred on a property in production are capitalized in property, plant and equipment.

ii) Buildings and equipment related to mining production

Buildings and mining equipment are recorded at cost and amortized, 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 assets is less than the life of the mine, amortization is based on their anticipated useful life.

iii) Rolling stock, communication and computer equipment

Rolling stock, communication and computer equipment are recorded at acquisition cost. Amortization is provided for using the declining balance method at a rate of 30%. The amortization expense remains capitalized for mining assets and will be recognized in the consolidated statement of operations gradually as the mining properties are put into production.

iv) Deferred stripping costs

Mining costs associated with stripping activities are deferred in the case of an open pit mine if the actual ratio of total tonnes of waste material relative to the total tonnes of ore in a given year is higher than the estimated average ratio for the life of the mine. These costs are subsequently charged to operating costs in the periods during which the said ratio is lower than the estimated average ratio for the life of the mine.

v) Property, plant and equipment evaluations

The company periodically values the carrying amount of its property, plant and equipment based on the future cash flow method. Net estimated future cash flows, on an undiscounted basis, from each mine and mining project are calculated based on estimated recoverable ounces of gold, estimated future metal price realization and operating, capital and site restoration expenses. If it is determined that the net recoverable amount of the property, plant and equipment is less than their carrying value and the impairment in value is permanent, a write-down to the net recoverable amount is made with a corresponding charge to operations. Management's estimate of future cash flows is subject to risks and uncertainties. Therefore, it is reasonably possible that changes could occur which may affect the recoverability of the company's property, plant and equipment.

SEMAFO inc.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(expressed in U.S. dollars except where otherwise indicated; amounts in tables are presented in thousands of U.S. dollars)

2 Significant accounting policies (continued)

Mining assets

Mining assets are comprised of mining rights, deferred exploration and development expenses on properties at the exploration and development stages and are recorded at acquisition cost or at their attributed value in the case of a devaluation caused by a permanent impairment of value.

Mining rights, deferred exploration and development expenses, and options to acquire undivided interests in mining rights are amortized only as these properties are put into production. These expenses are written off when the properties are abandoned or when cost recovery is uncertain. The company defines the uncertainty as follows: when no financial resources are available for development for three consecutive years or when the results of the exploration work do not justify any additional investment.

Costs related to properties put into production are transferred to property, plant and equipment.

Proceeds on the sale of metals are credited to mining assets during the start-up period. These revenues are based on realized prices for metals and are recorded when the metals are sold.

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

During the normal course of its business, the company enters into agreements to acquire undivided interests in mining properties, which are normally acquired in exchange for exploration and development expenses to be incurred according to different schedules.

Deferred financing costs

Deferred financing costs are comprised of interests and expenses incurred in relation to long-term debt financing and are deferred on the balance sheet and amortized over the term of the related debt.

Revenue recognition

The company records revenue when the following conditions are met: persuasive evidence of an arrangement exists; delivery has occurred under the terms of the arrangement; the price is fixed or determinable; and collectability is reasonably assured. Incidental revenues from the sale of by-products, such as silver, are classified within operating expenses; these incidental revenues are not significant.

Gold sales contracts – Physical delivery

The company enters into gold sales contracts calling for physical deliveries of gold during the normal course of its operations to establish the future selling price and manage the risk associated with future cash flows, given the price volatility of the metal produced. In addition, certain gold sales contracts include an interest rate swap. Gains and losses on these contracts and revenues or costs associated with the transactions are reflected in the consolidated statement of operations when the gold production is delivered under the terms of these contracts.

SEMAFO inc.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(expressed in U.S. dollars except where otherwise indicated; amounts in tables are presented in thousands of U.S. dollars)

2 Significant accounting policies (continued)

When the company renegotiates a contract to amend the delivery date, a gain or loss equal to the fair value of the initial agreement is recognized in the consolidated statement of operations on the date of the renegotiation, with a corresponding deferred revenue or loss, net of amounts paid or collected, in the consolidated balance sheet. Such deferred revenue or loss will be reflected in the consolidated statement of operations on the renegotiated delivery date.

Income taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the assets will not be realized.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into U.S. dollars at rates of exchange in effect at year-end, whereas non-monetary assets and liabilities are translated at historical rates. Gains and losses on translation are included in the consolidated statement of operations. Other items which affect income are translated at the rate of exchange prevailing on each transaction date.

Stock-based compensation plan

The company has a stock-based compensation plan, which is described in note 13. The company accounts for all stock-based compensation using the fair value method. This method consists of recording expenses to earnings based on the vesting of the options granted and the counterpart is accounted for in contributed surplus in the balance sheet (note 14). The fair value is calculated based on the Black-Scholes valuation model. When stock options are exercised, any consideration paid is credited to share capital.

Net income (loss) per share

Basic net income (loss) per share is computed by dividing net income (loss) (the numerator) by the weighted average number of outstanding common shares (the denominator) for the period. The computation of diluted net income (loss) per share includes the same numerator, but the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares had been issued using the redemption of share method.

Asset retirement obligations

Effective January 1, 2004, the company adopted the new accounting recommendations of Section 3110 of the Canadian Institute of Chartered Accountants Handbook relating to "Asset retirement obligations". This section defines the standards for the recognition, measurement and disclosure of asset retirement obligations. Prior to this year, estimated future reclamation and closure costs relating to active mines were accrued and charged to expenses over the expected operating life of the reserves of the mines.

SEMAFO inc.

Notes to Consolidated Financial Statements

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(expressed in U.S. dollars except where otherwise indicated; amounts in tables are presented in thousands of U.S. dollars)

2 Significant accounting policies (continued)

According to this section, the total amount of the estimated cash flow required to settle the obligations arising from environmentally acceptable closure and post-closure plans is discounted based on the credit-adjusted risk-free rate and is recorded as a liability. By way of compensation, the total discounted estimated cash flow is capitalized to property, plant and equipment, and amortized 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 assets is less than the life of the mine, amortization is based on their anticipated useful life. The asset retirement obligations recorded are adjusted for accumulated accretion in accordance with the expected timing of payment of the cash flow required to settle these obligations.

Accordingly and as required by the transition standards of this section, the financial statements for the comparative period were restated following this change in accounting policy. For the year ended December 31, 2004, the deficit at beginning of year was reduced by \$75,000.

3 Short-term investments

	2005	2004
	\$	\$
Shares of publicly traded companies, at cost	8,929	8,561
Write-down of short-term investments	(3,592)	(2,819)
	<u>5,337</u>	<u>5,742</u>

In 2005, the company generated a gain on disposal of short-term investments of \$1,492,000 resulting from the disposal of shares in a publicly traded company.

4 Inventories

	2005	2004
	\$	\$
Gold ingots	1,538	1,091
Gold in circuit	641	1,439
Stockpiles	5,142	2,752
Supplies and spare parts	4,350	2,289
	<u>11,671</u>	<u>7,571</u>

5 Other short-term assets

	2005	2004
	\$	\$
Amount receivable on disposal of investment in a subsidiary – Semafo Ghana Ltd. (note 15)	472	472
Prepaid expenses	1,694	1,163
	<u>2,166</u>	<u>1,635</u>

SEMAFO inc.

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(expressed in U.S. dollars except where otherwise indicated; amounts in tables are presented in thousands of U.S. dollars)

6 Property, plant and equipment

	2005		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Property acquisition costs, deferred exploration and development costs	70,664	20,810	49,854
Buildings and equipment related to mining production	24,252	6,159	18,093
Rolling stock, communication and computer equipment	4,609	2,058	2,551
Deferred stripping costs	2,636	-	2,636
	<u>102,161</u>	<u>29,027</u>	<u>73,134</u>

	2004		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Property acquisition costs, deferred exploration and development costs	65,778	10,651	55,127
Buildings and equipment related to mining production	21,556	2,781	18,775
Rolling stock, communication and computer equipment	3,842	1,734	2,108
Deferred stripping costs	1,458	-	1,458
	<u>92,634</u>	<u>15,166</u>	<u>77,468</u>

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7 Mining assets

The mining assets are comprised of wholly owned mining rights, undivided interests in properties and deferred exploration and development costs.

	Cost — Permits		Deferred exploration and development costs		Total — Mining assets	
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$
Ghana (Tinga)	-	1	-	1,291	-	1,292
Guinea (Siguiri)	390	389	656	257	1,046	646
Guinea (Kossaken)	-	165	-	248	-	413
Burkina Faso (Mana)	59	47	8,014	7,433	8,073	7,480
Burkina Faso (Datambi)	778	766	37	35	815	801
	<u>1,227</u>	<u>1,368</u>	<u>8,707</u>	<u>9,264</u>	<u>9,934</u>	<u>10,632</u>

Royalties will be paid if commercial operations are attained on certain mining properties.

There was no interest capitalized in mining assets during the year (2004 — \$351,000).

Costs and deferred exploration and development costs

	2005 \$	2004 \$
Balance – Beginning of year	10,632	50,749
Increase in development costs related to construction of Samira Hill project	-	17,142
Increase in deferred development costs related to feasibility study and related exploration costs of Mana project	593	2,244
Increase in costs and deferred exploration and development costs on other projects	1,007	364
Transfer of mining assets to property, plant and equipment – Samira Hill	-	(59,487)
Disposal of mining assets	(1,388)	(1)
Write-down and write-off of mining assets	(910)	(379)
Balance – End of year	<u>9,934</u>	<u>10,632</u>

SEMAFO inc.

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7 Mining assets (continued)

Write-down and write-off of mining assets

In 2005, the company made a complete revaluation of its mining assets portfolio and decided to write down the Kossaken project for an amount of \$910,000.

In 2004, the company wrote off mining assets totalling \$379,000 representing the costs related to the Hana Lobo property in Ivory Coast.

8 Other assets

	2005	2004
	\$	\$
Deferred charges – net of accumulated amortization \$541 (2004 – \$231)	277	670
Balance of interest in a disposed subsidiary – Semafo Ghana Ltd. (note 15)	-	445
	<u>277</u>	<u>1,115</u>

SEMAFO inc.

Notes to Consolidated Financial Statements

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(expressed in U.S. dollars except where otherwise indicated; amounts in tables are presented in thousands of U.S. dollars)

9 Long-term debt

Long-term debt consists of the following:

	2005 \$	2004 \$
Loan from a subsidiary of \$1,615,000, bearing interest at 3.75% over LIBOR payable quarterly, principal repayable in twelve equal quarterly instalments starting on September 15, 2005. Financed equipment is pledged as a guarantee on this loan. This loan is also secured by Semafo inc.	1,340	1,615
Bank loan from a subsidiary of \$12,500,000, bearing interest at 3.0% over LIBOR payable semi-annually, principal repayable in ten equal semi-annually instalments starting April 1, 2005, secured by a pledge of shares and assets of a subsidiary. The loan is also secured by a guarantee (limited to 40% of any outstanding amounts on the loan) granted by Semafo inc. ⁽¹⁾	10,000	12,500
Loan of \$7,500,000 from a parent company, bearing interest at 1.6% over LIBOR payable semi-annually, principal repayable in eight equal semi-annual instalments starting on April 30, 2005. In 2005, the company reimbursed this loan following the expected instalments of \$1,875,000 and an anticipated reimbursement of \$5,625,000 in December 2005.	-	7,500
Bank loan of \$5,000,000, bearing interest at 1.6% over LIBOR payable semi-annually, principal repayable in eight equal semi-annual instalments starting on April 30, 2005. In 2005, the company reimbursed this loan following the expected instalments of \$1,250,000 and anticipated reimbursements of \$3,750,000 in December 2005.	-	5,000
Bank loan from a subsidiary, bearing interest at a rate of 10.5% payable semi-annually, principal repayable in one instalment on December 31, 2005. Repaid in December 2005.	-	4,000
Bank loan from a subsidiary, bearing interest at a rate of 12% payable semi-annually, principal repayable in one instalment on December 31, 2005. Repaid in December 2005.	-	2,000
	<hr/> 11,340	<hr/> 32,615
Current portion of long-term debt	(3,036)	(11,900)
Long-term debt	<hr/> 8,304	<hr/> 20,715

⁽¹⁾ The company is required to maintain a cash balance of \$1,250,000 until the full repayment of the loan. This is reported as "restricted cash" on the balance sheet.

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Notes to Consolidated Financial Statements

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9 Long-term debt (continued)

The aggregate amount of the long-term debt payments required in each of the next four years is as follows:

	\$
2006	3,036
2007	3,036
2008	2,768
2009	2,500

10 Deferred revenues and gold sales contracts

The table below presents the evolution of the deferred revenues on gold sales contracts and the swap of interest rate.

	2005 \$	2004 \$
Balance – beginning of year	5,322	1,837
Unrealized losses on deferred gold delivery	2,202	4,747
Reversing of unrealized losses on gold delivery against prior year positions	(2,034)	(1,262)
Total gain on swap of interest rate	693	-
Realized gain on swap of interest rate	(88)	-
Reversing of unrealized losses on the settlement of gold sales contracts	(4,721)	-
Balance – end of year	<u>1,374</u>	<u>5,322</u>
Current portion of deferred revenues	<u>(952)</u>	<u>(2,034)</u>
Long-term portion of deferred revenues	<u>422</u>	<u>3,288</u>

On December 30, 2005, the company proceeded to the closing of gold sales contracts, for a total amount of \$13,290,000, generating a loss of the same amount.

However, some of these contracts concern positions, initially scheduled before December 30, 2005 but deferred beyond this date, therefore reversing unrealized losses on gold sales contracts, of an amount of \$4,721,000.

Therefore, this operation generated a net loss of \$8,569,000, accounted for in the consolidated statement of operations.

In 2005, the company deferred the delivery of part of its gold production, resulting in an unrealized loss on the gold sales contracts of an amount of \$2,202,000.

The company also delivered gold against the 2004 positions which have been deferred to 2005, therefore reversing the unrealized loss on the gold sales contracts of 2004 for an amount of \$2,034,000.

The swap of interest rate related to the gold sales contracts is effective since the beginning of the second quarter of 2005. This swap led to a total gain of \$693,000 for the year 2005. From this gain, \$88,000 is accounted for in the consolidated statement of operations and \$605,000 is deferred and presented in liabilities.

The net loss of \$80,000 was accounted for in the consolidated statement of operations as a decrease in gold sales and resulted in an increase of deferred revenues for the same amount in liabilities.

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(expressed in U.S. dollars except where otherwise indicated; amounts in tables are presented in thousands of U.S. dollars)

11 Advances payable

	2005	2004
	\$	\$
Advances payable to a minority interest ¹	6,094	5,892
Advances payable to the Republic of Niger ²	2,818	2,818
	<u>8,912</u>	<u>8,710</u>

The Republic of Niger has a 20% ownership interest in a company's subsidiary.

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. These costs will be repaid from the operating surplus of the subsidiary, the owner of the Samira Hill permit.

¹ These advances are non-interest bearing and have no specific terms of repayment. From these advances, \$5,837,000 (2004 – \$5,654,000) is designated in Canadian dollars.

² These advances are non-interest bearing.

12 Asset retirement obligations for property, plant and equipment

The company's operations are governed by a mining agreement governing the protection of the environment. The company will implement progressive measures for rehabilitation work during the operations, closing down and follow-up work upon closing of the mine. Hence, the company accounted for its asset retirement obligations of the mining site using cost estimates. Those estimates are subject to changes following modifications to laws and regulations or as new information becomes available.

The table below presents the evolution of the asset retirement obligations for property, plant and equipment for the periods.

	As at December 31, 2005	As at December 31, 2004
	\$	\$
Balance — beginning of year	1,156	478
Increase due to accretion expense	92	38
New liability	726	670
Liabilities paid off	(64)	(30)
Balance — end of year	<u>1,910</u>	<u>1,156</u>

The estimated undiscounted cash flow required to settle the asset retirement obligations is \$2,720,000. Those payments are expected during the years 2006 to 2014. An 8% discount rate was used to evaluate those obligations.

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13 Share capital

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 \$0.29 (CA\$0.33) per share

Unlimited number of Class "B" preferred shares, no par value, non-voting, non-participating and redeemable at the option of the company at a price of \$0.10 (CA\$0.12) per share

Movements in the company's share capital are as follows:

	2005		2004	
	Number	Amount	Number	Amount
	(000)	\$	(000)	\$
Common shares				
Balance as at January 1	90,364	87,094	90,182	86,894
Issued and paid in cash	40,000	55,750	-	-
Issued for exercises of options	300	291	182	200
Issued for exercises of warrants	3,520	5,033	-	-
Balance as at December 31	134,184	148,168	90,364	87,094
Warrants				
Balance as at January 1	7,591	2,332	7,500	2,310
Exercised during the period	(3,520)	(1,084)	-	-
Issued to agents	1,625	806	-	-
Issued and paid in cash	-	-	91	22
Balance as at December 31	5,696	2,054	7,591	2,332
Common shares and warrants	139,880	150,222	97,955	89,426

On December 21, 2005, the company completed a private placement of 40,000,000 units at a price of \$1.39 (CA\$1.63) per unit for a total consideration of \$55,750,000 (CA\$65,200,000).

During this private placement in 2005, in addition to the fees paid to the agents, the company granted 1,625,000 warrants. Each warrant entitles its holder to purchase one common share of the company at a price of \$1.60 (CA\$1.87) on or prior to December 21, 2008. The fair value of the warrants has been established at \$806,000 using the Black-Sholes valuation model.

Share issue expenses related to the December 21, 2005 private placement totaled \$4,371,000.

In 2005, 3,519,750 warrants have been exercised. These warrants led to the issuance of 3,519,750 common shares for a total amount of \$3,949,000 (CA\$4,928,000) paid in cash. An amount of \$1,084,000 from these warrants has been reclassified in share capital.

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13 Share capital (continued)

During the private placement in 2003, in addition to the fees paid to the agent, the company granted an option which allows the acquisition of up to a maximum of 487,500 units, having the same characteristics as the units issued in the private placement. This option was partially exercised in December 2004 for a total of 182,475 units leading to the issuance of 91,238 warrants valued at \$22,000 (CA\$29,000) and 305,025 units expired. The book value in the share capital account of those 305,025 expired units, for an amount of \$94,000 (CA\$125,000), was reclassified to the contributed surplus account in the balance sheet. This exercised option by the agent also led to the issuance of 182,475 common shares for a total amount of \$166,000 (CA\$201,000) paid in cash. An amount of \$34,000 (CA\$45,000) from the option to the agent was reclassified in share capital in 2004.

Warrants

Warrants outstanding as at December 31, 2005:

Expiration date	Exercise price	Number of warrants
December 2006	\$1.20 (CA\$1.40)	4,071,488
December 2008	\$1.60 (CA\$1.87)	1,625,000
		<hr/>
		5,696,488

The following schedule presents the assumptions used to establish the assigned value to the warrants issued in 2005, using the Black-Scholes valuation model:

Assumptions used for warrants evaluation	2005
Average dividend per share	0.00%
Forecasted volatility	50%
Risk-free interest rate	3.84%
Expected life – warrants	3 years
Fair value – Warrants (per unit)	\$0.496

Options

The company has a share option plan for its employees, officers, consultants and directors and those of its subsidiaries (the "Plan"). The Plan provides for the grant of non-transferable options for the purchase of common shares. The Board of Directors of the company has the authority to select those employees, officers and directors to whom options will be granted, to determine the terms, limits, restrictions and conditions of the grants of options, to interpret the Plan and make all decisions relating thereto. The option price shall not be lower than the closing price of the company's common shares on the Toronto Stock Exchange on the last trading day before the day on which the option is granted or, if there has been no trading on that day, the closing trading price at the Toronto Stock Exchange the last day preceding the day the option is granted, on which at least one transaction bearing a regular lot that has been registered. There are 4,500,000 (2004 – 4,500,000) of the company's common shares which may be issued pursuant to the exercise of share options granted under the Plan taking into consideration the number of common shares contemplated by all other options, employee share purchase plans or options for services rendered, if any. The number of options that may be issued to a person pursuant to the 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 the grant. The right to exercise these options is vested evenly over a three-year period.

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13 Share capital (continued)

A total of 150,000 new options was issued to employees, officers, consultants and directors of the company on November 14, 2005. Those options were subject to a valuation on the same date.

A total of 300,000 options was exercised on October 4, 2005 for a cash consideration of \$116,000 (CA\$135,000). An amount of \$175,000 from these options has been reclassified from contributed surplus to share capital.

In 2004, 1,065,000 options were expiring. The Board of Directors decided to extend the exercise date for those options for another three-year period, bringing the expiry date to 2007. This extension was approved by the Toronto Stock Exchange on December 15, 2004. Those options were re-evaluated on December 15, 2004 since they are considered as new issued options.

On December 2, 2004, 880,000 new options were issued to employees, officers, consultants and directors of the company. Those options were subject to a valuation on December 2, 2004.

The following schedule presents the assumptions used to establish the assigned value to the options issued using the Black-Scholes valuation model:

Assumptions used for option valuation	2005	2004	
	New options	Extended options	New options
Average dividend per share	0.00%	0.00%	0.00%
Forecasted volatility	50%	85%	90%
Risk-free interest rate	3.75%	3.25%	3.25%
Expected life	5 years	2.77 years	4 years
Fair value — Weighted average of options issued	\$0.64	\$0.55	\$0.63

For the year ended December 31, 2005, the total expense for the stock-based compensation was \$220,000 compared to \$790,000 in 2004. The counterpart for those costs was credited to the contributed surplus account. The cost was calculated according to the Black-Scholes valuation model using the assumptions shown above.

The following table sets forth the options granted to employees, officers, consultants and directors as part of their remuneration under the Plan:

	2005		2004	
	Number of options (in thousands)	Weighted average exercise price (\$)	Number of options (in thousands)	Weighted average exercise price (\$)
Balance – beginning of year	2,432	0.95	1,552	0.89
Cancelled or expired	-	-	(1,065)	0.47
Exercised	(300)	0.39	-	-
Issued	150	1.38	1,945	0.68
Balance – end of year	2,282	1.09	2,432	0.95
Options exercisable – end of year	1,888	1.09	1,845	0.95

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13 Share capital (continued)

<u>Number of options</u> (000)	<u>Exercise price</u> (\$ per option)	<u>Expiration date</u>
44	\$2.14 (CA\$2.50)	December 2006
115	\$2.14 (CA\$2.50)	May 2007
7	\$2.02 (CA\$2.35)	August 2007
490	\$0.39 (CA\$0.45)	August 2007
285	\$2.14 (CA\$2.50)	September 2007
50	\$0.66 (CA\$0.77)	September 2007
25	\$0.80 (CA\$0.93)	September 2007
200	\$0.77 (CA\$0.90)	November 2007
25	\$1.50 (CA\$1.75)	May 2008
11	\$0.71 (CA\$0.83)	August 2008
880	\$0.95 (CA\$1.14)	December 2014
150	\$1.38 (CA\$1.61)	November 2015
<u>2,282</u>		

The weighted average exercise price of an option is \$1.09 (CA\$1.27) as at December 31, 2005 and \$0.95 (CA\$1.14) as at December 31, 2004.

14 Contributed surplus

The contributed surplus account is composed of :

	2005	2004
	\$	\$
Balance – beginning of the year	884	-
Exercised options / Expired options (note 13)	(175)	94
Charges from valuation of options (note 13)	220	790
	<u>929</u>	<u>884</u>
Balance – end of year		

15 Loss (gain) on disposal of investments in subsidiaries and gain on disposal of mining assets

Ebi (Ghana) Limited

On June 21, 2005, the company sold all of its investments in Ebi (Ghana) Limited, owner of the Tinga property, for a consideration valued at \$1,019,000, representing the issuance of 3,300,000 common shares of Birim Goldfields Inc. issued upon closing of the transaction. Since the book value of the investment in Ebi (Ghana) Limited was at \$1,388,000, this transaction resulted in a loss on disposal of investment of a subsidiary of \$369,000.

Segala Mining Corporation S.A.

In July 2004, the company signed an agreement with Nevsun whereby the company received 1,420,000 shares of Nevsun to settle the sale price balance for the sale of Segala Mining Corporations S.A. Those shares replaced the \$2,000,000 payments respectively planned for July 2004 and July 2005. At the date of this transaction, the shares were valued at \$3,869,000 (CA\$5,112,000), resulting in a gain on disposal of investments of \$1,869,000.

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15 Loss (gain) on disposal of investments in subsidiaries and gain on disposal of mining assets (continued)

Semafo Ghana Ltd.

In February 2004, the company sold all of its interests in Semafo Ghana Ltd., owner of the EBI/Teleku property, for a consideration valued at \$5,454,000. The consideration represents 4,000,000 common shares of Adamus Resources Ltd. issued upon closing of the transaction valued at \$4,041,000 and cash payments of \$1,500,000, of which \$300,000 was received on the closing date of the transaction. The remaining amount of \$1,200,000 will be paid over a two-year period. At the date of the transaction, the discounted value of the cash portion was established at \$1,413,000. Since the carrying value of the company's interest in Semafo Ghana Ltd. was \$1, the company realized a gain of \$5,454,000 in 2004. As at December 31, 2005, a total of \$472,000 has been disclosed in short-term assets (note 5).

Mont Kamoulima

In December 2004, the company sold its 47% interest in the Mont Kakoulima project for a consideration valued at \$268,000 representing the issuance of 1,000,000 shares of Afcan Mining Corporation. Since book value of this mining asset was \$1, this transaction resulted in a gain on disposal of mining assets of \$268,000.

16 Income taxes

Substantially all of the differences between the actual income tax (recovery) of nil presented in the financial statements and the expected statutory income tax relate to losses not recognized, write-off of mining assets and other non-deductible items.

As at December 31, 2005, future income taxes are as follows:

	2005	2004
	\$	\$
Future income tax assets		
Property, plant and equipment	12,800	4,711
Share issue expenses	1,100	170
Operating losses carried forward	2,982	2,090
	<hr/>	<hr/>
	16,882	6,971
Less: Valuation allowance	(16,882)	(6,971)
	<hr/>	<hr/>
	-	-

SEMAFO inc.

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(expressed in U.S. dollars except where otherwise indicated; amounts in tables are presented in thousands of U.S. dollars)

16 Income taxes (continued)

The company has accumulated non-capital losses for income tax purposes of approximately of \$29,883,000, which may be carried forward and used to reduce taxable income in future years. These losses may be claimed no later than:

	\$
December 31, 2006	593,000
2007	806,000
2008	16,925,000
2009	1,472,000
2010	1,127,000
2011	500,000
2012	1,031,000
2013	4,444,000
2014	1,762,000
2015	1,223,000

The unamortized balance for tax purposes of share issue expenses amounting to approximately \$3,545,000 will be deductible over the next five years, ending in 2009.

As at December 31, 2005, the company incurred exploration and development expenditures of approximately \$9,934,000, which are not subject to expiry for fiscal purposes.

17 Financial instruments

Fair value

The company has determined the estimated fair value of its financial assets and liabilities based on generally accepted valuation methods.

Short-term financial assets and liabilities are valued at their carrying amounts, which are reasonable estimates of their fair value due to their near-term maturities. The fair value of short-term investments based on market approximates their carrying value.

The company has estimated the fair value of the components of the long-term debt based on current interest rates and the related market value of financial instruments with those having comparable terms. The carrying value of these financial instruments is considered to approximate fair value. It is impossible, without considerable effort, to evaluate the fair value of advances payable as they are non-interest bearing and have no fixed terms of repayment.

Interest rate risk

The company's cash and cash equivalents bear interest at fixed rates. Accounts receivable, accounts payable and accrued liabilities and advances payable are non-interest bearing.

The long-term debt of \$11,340,000 is exposed to interest rate fluctuations.

Pursuant to gold sales contracts including an interest rate swap, the company pays a floating rate and receives a fixed rate (note 19).

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17 Financial instruments (continued)

Foreign exchange risk

Some of the company's short-term financial assets and the majority of the advances payable are exposed to foreign exchange rate fluctuations.

Credit risk

The company reviews all accounts receivable and records an allowance for doubtful accounts when they are considered unrecoverable.

18 Related party transactions

During the current year, the company reported the following related party transactions:

	2005	2004
	\$	\$
Technical services fees, management fees, commission fees, salary charges, operator fees and guarantee fees charged by Managem S.A.	1,827	2,989
Professional fees charged by companies controlled by directors	342	205

Accounts payable and accrued liabilities include an amount of \$37,000 (2004 – \$2,712,000) due to Managem S.A.

In 2005, Managem S.A. received a guarantee fee on the long-term debt of \$527,000 (2004 – \$479,000) directly from the lender.

Following a transaction between shareholders on December 21, 2005, Managem S.A. reduced significantly its interest in the company from 53% to less than 10%.

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19 Commitments

a) Gold sales contracts

	2006	2007	2008	2009	Total
Adjustable gold sales contracts ^{1,2}					
Ounces (in thousands)	32	25	24	18	99
Average price (\$ per ounce)	389	360	360	360	369
Fixed gold sales contracts ¹					
Ounces (in thousands)	35	25	24	18	102
Average Price (\$ per ounce)	357	360	360	360	359
Total gold sales contracts ¹					
Ounces (in thousands)	67	50	48	36	201
Average Price (\$ per ounce)	372	360	360	360	364

¹ Positions totalling 192,000 ounces include a swap of interest rate. Pursuant to the swap agreement, the company is committed to pay the difference between the "LIBOR" USD three (3) months interest rate and the "GOFO" three (3) months interest rate, whereas the counterparty is committed to pay a fixed interest rate of 1% per annum.

² The price of the adjustable gold sales contracts program may reach up to \$390 per ounce. The adjustments depend on the prevailing spot price on different dates during the term of the program.

At December 31, 2005, the mark-to-market potential loss of the company's gold sales contracts positions is \$32,075,000 calculated at a spot price of \$513 per ounce and based on prevailing market interest rates and volatilities. This amount is not accounted for in the company's books because such commodity contracts call for physical delivery. From that potential loss, an amount of \$31,529,000 is related to a subsidiary in which the company has a 50% interest.

b) Royalties

The company is subject to a royalty of 5.5% of the market value of the gold ounces sold originating from the Samira Hill mine representing \$2,300,000 in 2005 (2004 – \$477,000) payable to the Republic of Niger.

The company is subject to a royalty of 5% of the market value of the gold ounces sold originating from the Kiniero mine representing \$1,370,000 in 2005 (2004 – \$823,000) payable to the Republic of Guinea.

c) Mining contract

In 2003, the company signed a mining contract for the Samira Hill project. The payments will be made over the approximate seven-year mine life. As at December 31, 2005, the company is liable for an amount of \$4,000,000, which represents the indemnity payable to the contractor if there is an early termination of the contract by the company.

d) Fuel purchase contract

In 2004, the company signed a fuel procurement contract for the Samira Hill project for a period of seven years. As at December 31, 2005, the company is liable for \$325,000 which represents the indemnity payable to the contractor if there is an early termination of the contract by the company.

e) Mining equipment contract

In 2005, the company signed a contract to purchase mining equipment for an amount of \$7,800,000. Delivery of this equipment will occur in 2006.

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20 Segmented information

The company is conducting exploration and production activities on different sites in Guinea, Niger and Burkina Faso. These sites are managed separately given their different locations and laws.

					2005
	Kiniero Mine, Guinea	Samira Hill Mine, Niger	Mana Project, Burkina Faso	Corporate, and others	Total
	\$	\$	\$	\$	\$
Gold sales	21,945	36,815	-	-	58,760
Net gain (loss) on gold sales contracts	(651)	571	-	-	(80)
Revenue	21,294	37,386	-	-	58,680
Operating expenses	18,728	23,271	-	-	41,999
Amortization of property, plant and equipment	4,148	9,860	-	30	14,038
Net income (loss)	(10,860)	619	(10)	(3,231)	(13,482)
Property, plant and equipment	17,129	55,689	75	241	73,134
Mining assets	-	-	8,073	1,861	9,934
Total assets	22,087	70,069	8,261	27,637	128,054
					2004
	Kiniero Mine, Guinea	Samira Hill Mine, Niger	Mana Project, Burkina Faso	Corporate and others	Total
	\$	\$	\$	\$	\$
Gold sales	13,689	7,077	-	-	20,766
Net loss on gold sales contracts	(2,232)	(1,253)	-	-	(3,485)
Revenue	11,457	5,824	-	-	17,281
Operating expenses	12,842	4,307	-	-	17,149
Amortization of property, plant and equipment	3,423	1,860	-	31	5,314
Net income (loss)	(5,389)	(1,189)	(22)	1,659	(4,941)
Property, plant and equipment	19,501	57,753	25	189	77,468
Mining assets	-	-	7,480	3,152	10,632
Total assets	25,586	66,151	7,625	10,254	109,616

21 Comparative figures

Certain comparative data for the prior year were reclassified to conform to the presentation adopted for the year ended December 31, 2005.