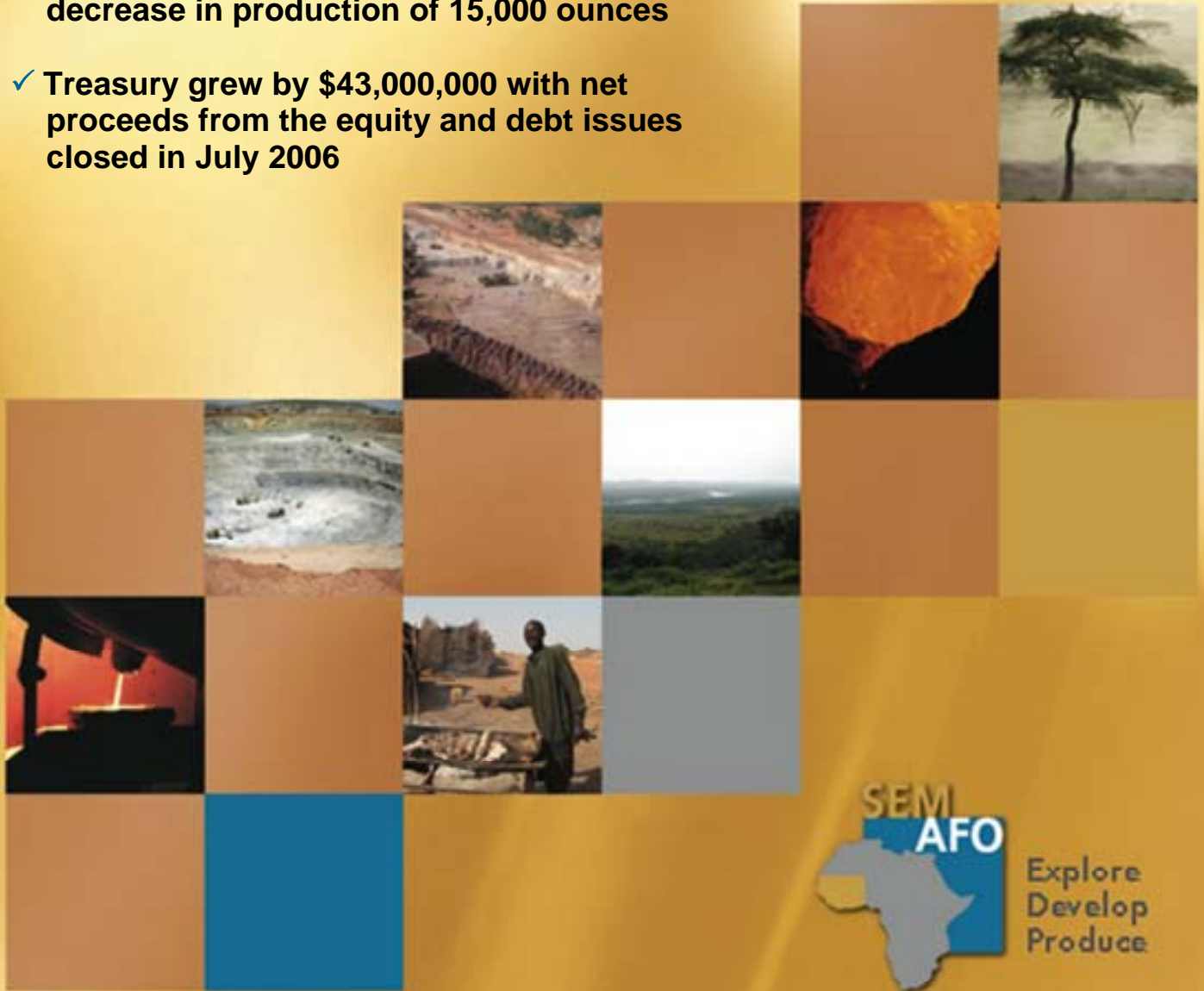


2nd Quarter – June 30 2006

- ✓ Production of 24,700 ounces of gold
- ✓ Record average selling price of \$503 per ounce
- ✓ Net income of \$1,569,000
- ✓ Cash flows from operations of \$2,694,000, from which more than \$4,000,000 from Kiniero mine
- ✓ Temporary shutdown of the Samira Hill mine leading to non recoverable fixed expenses of \$810,000 as of June 30, 2006 and a decrease in production of 15,000 ounces
- ✓ Treasury grew by \$43,000,000 with net proceeds from the equity and debt issues closed in July 2006



MANAGEMENT DISCUSSION AND ANALYSIS

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 six-month period ended June 30, 2006 compared to corresponding period last year. This MD&A, prepared as of August 10, 2006, is intended to complement and supplement our consolidated interim financial statements. It should be read in conjunction with the MD&A for the period ended December 31, 2005, our audited consolidated annual financial statements for the year ended December 31, 2005 and notes thereto, together with our consolidated interim financial statements and notes thereto for the six months ended June 30, 2006. Our consolidated interim 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 consolidated interim financial statements, prepared in accordance with Canadian generally accepted accounting principles, are expressed in thousands of American dollars, unless specified otherwise. All monetary amounts in this MD&A are presented in American dollars unless otherwise specified.

	Three-month period ended June 30		Six-month period ended June 30	
	2006	2005	2006	2005
Operations				
Gold production (ounces)	24,700	38,200	58,000	78,100
Gold sales (ounces)	29,800	41,600	59,800	78,500
Cash operating cost (\$/ounce produced)	331	217	321	225
Average selling price (\$/ounce sold)	503	380	459	362
Results (in thousands \$)				
Gold sales	14,983	15,827	27,484	28,408
Net income (loss)	1,569	32	1,608	(789)
Cash flow from operating activities ¹	2,694	4,615	4,319	6,806

¹excluding net changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment

HIGHLIGHTS OF THE SECOND QUARTER 2006

- **Production of 24,700 ounces of gold**
- **Average selling price of \$503 per ounce**
- **Net income of \$1,569,000**
- **Cash flows from operations of \$2,694,000, from which more than \$4,000,000 from Kiniero mine**
- **Temporary shutdown of the Samira Hill mine leading to non recoverable fixed expenses of \$810,000 as of June 30, 2006 and a decrease in production of 15,000 ounces for Q2**
- **Treasury grew by \$43,000,000 with net proceeds from the equity and debt issues closed in July 2006**

GOALS 2006

- **Invest \$1,500,000 in the exploration programs with the objective of increasing reserves and resources at Kiniero**
- **Produce 65,000 ounces of gold at the Samira Hill mine**
- **Invest \$1,200,000 in the exploration programs with the objective 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**

SECOND QUARTER – THREE-MONTH PERIOD ENDED JUNE 30, 2006

REVIEW OF MINING OPERATIONS

KINIERO MINE

Three-month periods ended June 30	2006	2005
Operating statistics		
Ore mined (tonnes)	115,000	219,300
Ore processed (tonnes)	152,300	163,900
Head-grade (g/tonne)	3.20	3.74
Recovery (%)	94	93
Gold production (ounces)	15,000	18,200
Cash Operating Cost (\$/ounce produced)	315	231

For the three-month period ended June 30, 2006, a total of 115,000 tonnes of ore and 1,327,000 tonnes of waste were mined at Kiniero, representing a stripping ratio of over 11:1. During the same period in 2005, a total of 219,300 tonnes of ore and 1,146,000 tonnes of waste were mined, representing a stripping ratio of 5:1. The increase in the stripping ratio is due to the start-up of mining operations in the new East-West and Banfara pits.

A total of 152,300 tonnes of ore were processed at Kiniero at an average grade of 3.20 g/t in the second quarter of 2006, compared with 163,900 tonnes of ore at an average grade of 3.74 g/t for the same period in 2005. The decrease in the grade of the ore processed is due to the development of the East-West and Banfara pits, which required increased mining of waste material, thereby limiting the exposure of higher grade ore. The shortage of ore mined from the pits was offset at the plant by ore from the stockpiled inventories of lower-grade material.

For the three-month period ended June 30, 2006, our gold production reached 15,000 ounces at a cash operating cost of \$315 per ounce compared with 18,200 ounces at a cash operating cost of \$231 per ounce for the same period in 2005. The decrease in the ounces produced and the change in the cash operating cost in 2006 are largely due to the processing of lower-grade ore while the increase in the quarter's cash operating cost is due to the increase in the price of fuel, reagents and other production related components.

SAMIRA HILL MINE

Three-month periods ended June 30	2006	2005
Operating statistics		
Ore mined (tonnes)	324,900	418,600
Ore processed (tonnes)	191,000	307,000
Head-grade (g/tonne)	1.91	2.37
Recovery (%)	80	88
Gold production (ounces)	9,700	20,000
Cash Operating Cost ¹ (\$/ounce produced)	356	204

¹ excluding fixed expenses incurred during the temporary shutdown period

At the Samira Hill mine, a total of 324,900 tonnes of ore and 1,443,000 tonnes of waste were mined during the second quarter of 2006 from the Samira Main, Samira East and Libiri pits, representing a stripping ratio of 4:1 compared with 418,600 tonnes of ore and 1,605,000 tonnes of waste for a stripping ratio of 4:1 in the second quarter of 2005.

In the second quarter of 2006, 191,000 tonnes of ore with an average grade of 1.91 g/t were processed at Samira Hill compared with 307,000 tonnes of ore with an average grade of 2.37 g/t in the same period of 2005. The decrease in tonnage is largely due to the shutdown of the plant during the month of May as a result of damage caused to the ball mill's gearbox unit. Following this unexpected event, we conducted a full review of all the components of the ball mill. We also took advantage of this downtime period to carry out all the maintenance work initially planned for July 2006 as well as a complete overhaul of the power plant in order to maximize the mine's availability once operations are resumed.

The variation in the grade processed is largely due to the processing of ore mined from the Libiri pit, which has a lower grade than the Samira Main pit. The mining of ore from the Libiri pit began at the end of the first quarter of 2006.

The recovery rate decreased from 88% in the second quarter of 2005 to 80% during the same period in 2006. The change is largely due to the processing of ore containing more graphite and sulphide from the Samira Main pit. Metallurgical studies launched at the beginning of the year confirm the drops in the recovery rate mainly in the presence of sulphide ore.

We produced 9,700 ounces of gold at Samira Hill during the second quarter of 2006 at a cash operating cost of \$356 per ounce compared with 20,000 ounces of gold in the same period of 2005 at a cash operating cost of \$204 per ounce. The drop in the number of ounces produced is due to the shutdown of the plant. The increase in the cash operating cost per ounce is mainly attributable to the grade and recovery effect as well as additional blasting work and the increase in the cost of fuel and reagents.

STATEMENTS OF OPERATIONS

Significant Financial Data

(in accordance with Canadian generally accepted accounting principles)

Three-month periods ended June 30	2006	2005
Statements of operations and cash flows		
(in thousands \$, except for amounts per share)		
Gold sales	14,983	15,827
Net loss on gold sales contracts	(26)	(350)
Revenue	14,957	15,477
Net income	1,569	32
Net income per share		
Basic (\$)	0.01	0.01
Diluted (\$)	0.01	0.01
Operating cash flow ⁽¹⁾	2,694	4,615
	As at June 30, 2006	As at December 31, 2005
Balance sheet		
Cash and cash equivalents	9,200	22,208
Total assets	127,691	128,054
Total long-term debt (including current portion)	9,822	11,340
Shareholders' equity	96,301	92,686

⁽¹⁾ excluding net changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment

For the three-month period ended June 30, 2006, Semafo presents a net income of \$1,569,000 or \$0.01 per share compared with net income of \$32,000 or \$0.01 per share for the same period in 2005. The increase of 32% in the average selling price was offset by the increase in operating costs. Interest expenses were reduced following the significant debt reduction that took place in the last quarter of 2005. We also recorded a gain of \$1,437,000 following the disposal of shares of a publicly traded company.

Segmented information

Three-month period ended June 30, 2006				
(in thousands \$)	Kiniero mine Guinea	Samira Hill mine Niger	Others	Total
Gold sales	9,543	5,440	-	14,983
Net loss on gold sales contracts	-	(26)	-	(26)
Revenue	9,543	5,414	-	14,957
Mining operation expenses	5,534	6,416	-	11,950
Amortization of property, plant and equipment	1,097	1,713	7	2,817
Mining operations				
Gold sales (ounces)	15,500	14,300	-	29,800
Average selling price (\$/ounce)	615	380	-	503
Total cash cost (\$/ounce sold) ¹	357	392	-	374

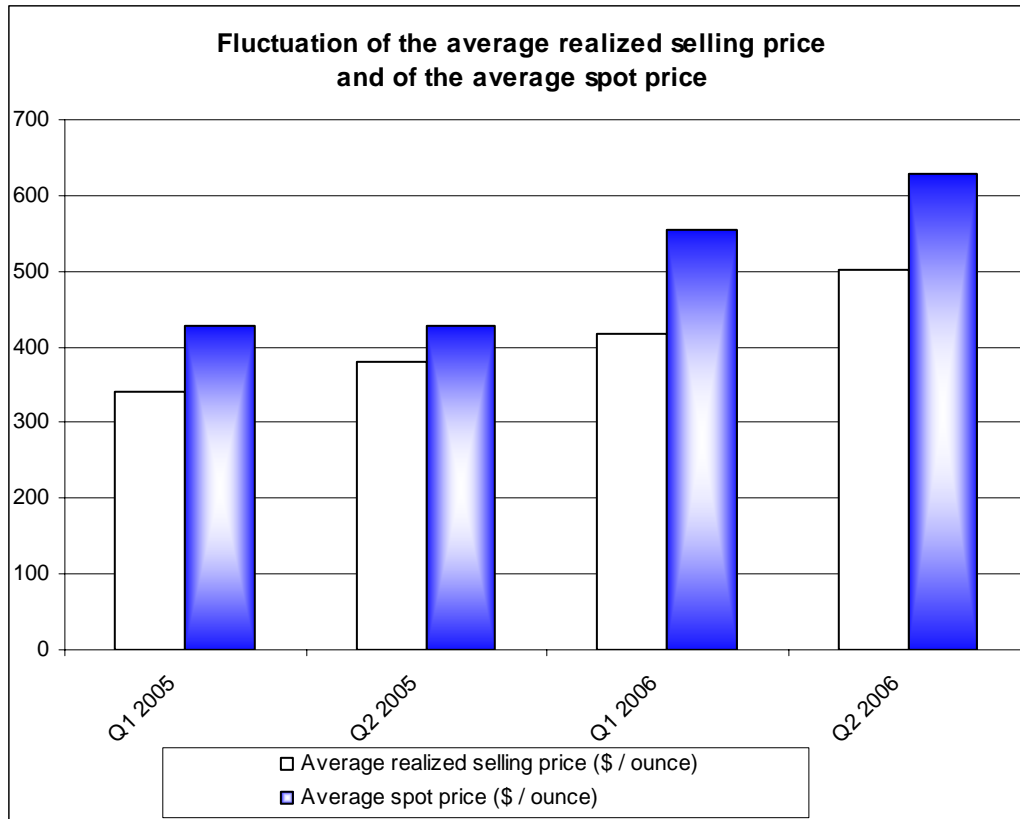
Three-month period ended June 30, 2005				
(in thousands \$)	Kiniero mine Guinea	Samira Hill mine Niger	Others	Total
Gold sales	7,659	8,168	-	15,827
Net gain (loss) on gold sales contracts	(685)	335	-	(350)
Revenue	6,974	8,503	-	15,477
Mining operation expenses	5,060	5,071	-	10,131
Amortization of property, plant and equipment	1,084	2,245	8	3,337
Mining operations				
Gold sales (ounces)	19,600	22,000	-	41,600
Average selling price (\$/ounce)	390	371	-	380
Total cash cost (\$/ounce sold) ¹	261	231	-	245

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

Gold sales

During the second quarter of 2006, gold sales totalled \$14,983,000, representing 29,800 ounces of gold at a record average price of \$503 per ounce. For the same period in 2005, sales totalled \$15,827,000, representing the sale of 41,600 ounces of gold at an average price of \$380 per ounce. The 32% increase in the average sales price is the result of the increase in the price of gold on the market and the settlement of most of the Kiniero gold sales contracts in December 2005, which enabled us to sell almost the entire Kiniero production at spot price. The reduction in the number of ounces sold, which resulted substantially from the temporary shutdown at the Samira Hill mine, was partially offset by the increase in the average selling price.

The following chart demonstrates the constant increase in the average spot price and our average realized selling price per quarter.



Kiniero

During the second quarter of 2006, 15,500 ounces of gold from the Kiniero mine were sold at an average price of \$615 per ounce compared with the sale of 19,600 ounces of gold at an average price of \$390 per ounce for the same period in 2005. The significant increase in the average sales price is the result of the settlement of most of the Kiniero gold sales contracts. In the second quarter of 2005, 5,075 ounces of gold were sold under our gold sales contracts at an average price of \$295 per ounce.

Samira Hill

During the second quarter of 2006, 14,300 ounces of gold from the Samira Hill mine were sold at an average price of \$380 per ounce compared with the sale of 22,000 ounces of gold at an average price of \$371 per ounce for the same period in 2005. In the second quarter of 2006 and 2005, all ounces were delivered under our gold sales contracts. The drop in the number of ounces sold is due to the temporary shutdown at the Samira Hill mine.

Net gain (loss) on gold sales contracts

During the second quarter of 2006, the net loss on the gold sales contracts totalled \$26,000 compared to \$350,000 for the same period in 2005. The losses and gains on gold sales contracts depend on the spot price on the deferral date compared to our contract sales price. This amount does not represent an obligation for payment, but the replacement value of the contract, based on market conditions prevailing on the deferral dates.

Samira Hill

During the three-month period ended June 30, 2006, the company deferred positions to the first quarter of 2007, which generated an unrealized loss on gold sales contracts of \$265,000.

The company also fulfilled positions which had been deferred from the first quarter of 2006, therefore reversing the unrealized loss on the gold sales contracts for an amount of \$162,000.

The interest rate swap 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 \$228,000 during the three-month period ended June 30, 2006. From this gain, \$77,000 is accounted for in the consolidated statement of operations and deferred revenue of \$151,000 is presented in the liabilities.

The net loss of \$26,000 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 the liabilities.

As at June 30, 2006, the gold sales contracts of Samira Hill provide for the delivery of 19,000 ounces of gold before December 31, 2006.

Mining Operation Expenses

Mining operating costs for the second quarter of 2006 totalled \$11,950,000 compared with \$10,131,000 for the same period in 2005. These costs correspond to the production of 29,800 ounces of gold for the second quarter of 2006 at a total cash cost of \$374 per ounce compared with the production of 41,600 ounces of gold at a total cash cost of \$245 per ounce for the same period in 2005.

Kiniero

Mining operating costs at the Kiniero mine totalled \$5,534,000 for the second quarter of 2006 compared with \$5,060,000 for the same period in 2005. They represent production costs of 15,500 ounces at a total cash cost of \$357 per ounce during the second quarter of 2006 compared with a production cost of 19,600 ounces at a total cash cost of \$261 per ounce for the same period in 2005. The increase in production costs is largely due to the processing of lower-grade ore and the increase in the price of fuel and reagents experienced throughout the industry.

Reconciliation of total cash cost per ounce to financial statements

Three-month periods ended June 30	2006	2005
Mining operation expenses per financial statements (in thousands \$)	5,534	5,060
Inventory write-down variation (in thousands \$)	-	76
Mining operation expenses for per ounce calculation (in thousands \$)	5,534	5,136
Ounces sold (ounces)	15,500	19,600
Total cash costs (\$/ounce sold)	357	261

Samira Hill

Mining operating costs of Samira Hill totalled \$6,416,000 for the second quarter of 2006 compared with \$5,071,000 for the same period in 2005. They represent production costs of 14,300 ounces at a total cash cost of \$392 per ounce compared with production costs of 22,000 ounces at a total cash cost of \$231 per ounce during the same period in 2005. For the second quarter of 2006, the operating costs include \$810,000 of fixed expenses incurred during the temporary shutdown period. The increase in operating costs is largely due to the lower recovery rate and the lower grade of ore processed, as well as blasting work and the increase in the cost of fuel and reagents.

Reconciliation of total cash cost per ounce to financial statements

Three-month periods ended June 30	2006	2005
Mining operation expenses per financial statements (in thousands \$)	6,416	5,071
Fixed expenses incurred during the temporary shutdown period (in thousands \$)	(810)	-
Mining operation expenses for per ounce calculation (in thousands \$)	5,606	5,071
Ounces sold (ounces)	14,300	22,000
Total cash costs (\$/ounce sold)	392	231

Amortization of property, plant and equipment

The amortization expense related to mining operations amounted to \$2,810,000 for the three-month period ended June 30, 2006 compared to an amortization expense of \$3,329,000 for the same period in 2005. The amortization expense per ounce sold is \$94 per ounce for the second quarter of 2006 compared to \$80 for the same quarter in 2005.

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 Kiniero amortization expense totalled \$1,097,000 for the second quarter of 2006 compared to \$1,084,000 for the same period in 2005. The amortization expense per ounce is \$71 for the second quarter of 2006 compared to \$55 for the same period in 2005. 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 in the second quarter of 2005.

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

Three-month periods ended June 30	2006	2005
Amortization of property, plant and equipment per financial statements (in thousands \$)	1,097	1,084
Ounces sold (ounces)	15,500	19,600
Amortization per ounce sold (\$/ounce sold)	71	55

Samira Hill

The Samira Hill amortization expense totalled \$1,713,000 for the second quarter of 2006, or \$120 per ounce compared to an amortization of \$2,245,000 or \$102 per ounce for the same period in 2005. The increase is mainly due to the amortization of certain assets on a declining balance method, paired with the reduction of ounces sold.

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

Three-month periods ended June 30	2006	2005
Amortization of property, plant and equipment per financial statements (in thousands \$)	1,713	2,245
Ounces sold (ounces)	14,300	22,000
Amortization (\$/ounce sold)	120	102

Administration

Administration expenses totalled \$1,304,000 for the second quarter 2006, compared to \$526,000 for the same period in 2005. This increase is due to the increase in our activities.

Stocked-based compensation

Stock-based compensation expense totalled \$318,000 for the three-month period ended June 30, 2006 compared to \$46,000 for the same period in 2005. The consideration of these costs was credited to the contributed surplus account. A total of 2,655,000 options were issued in the second quarter of 2006, whereas we did not issue any options in the same period of 2005.

Gain on disposal of short-term investments

In April 2006, the company recorded a gain on disposal of short-term investments in the amount of \$1,437,000 following the disposal of shares of a publicly traded company for a cash consideration of \$3,227,000.

Loss on disposal of investment in subsidiaries

In June 2005, the company sold all of its interest 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 investments 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.

Interest on long-term debt

Interest on long-term debt decreased of 70%, from \$624,000 for the second quarter 2005 to \$185,000 for the same period in 2006. This decrease is the result of an important reduction of the indebtedness in December 2005.

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, generated liquidities of \$2,694,000 during the second quarter 2006, compared to a positive cash flow of \$4,615,000 for the same period in 2005. The increase in the cash flow generated by Kiniero resulting from the settlement of the gold sales contracts was offset by the reduction in the cash flow generated by Samira Hill.

Working capital items used liquidities of \$5,924,000 for the second quarter 2006, mainly representing an increase in receivables combined to a reduction in the accounts payable and accrued liabilities. During the same period in 2005, working capital items had required liquidities of \$735,000.

Financing

During the second quarter 2006, we reimbursed \$1,384,000 of long-term debt compared to \$1,563,000 during the same period in 2005.

Furthermore, during the second quarter 2006, 806,000 warrants and 108,000 stock options were exercised for a cash consideration of \$1,221,000. During the same period in 2005, 3,500,000 warrants had been exercised for a cash consideration of \$3,925,000.

Investing

During the second quarter 2006, liquidities of \$1,613,000 were invested in mining assets compared to \$445,000 for the same period in 2005.

During the second quarter 2006, we invested on the Mana property, \$771,000 in exploration and \$759,000 for the finalisation of the feasibility study and the engineering work. Moreover, an amount of \$83,000 was invested on other exploration projects still at the exploration stage. During the same period in 2005, \$249,000 was invested in the feasibility study and exploration activities for the Mana project. Moreover, \$196,000 was invested on other exploration projects still at the exploration stage.

Investments of \$8,744,000 in property, plant and equipment were made during the three-month period ended June 30, 2006 compared to investments of \$1,816,000 during the same period in 2005. The investments made in 2006 mainly include the increase in the stripping costs of \$1,309,000, exploration expenditures at Kiniero and Samira Hill of \$1,200,000 as well as the acquisition of mining equipment for \$5,060,000. In the corresponding period in 2005, the investments represented mainly the exploration expenditures on the Kiniero and Samira Hill sites and the investment related to the Samira Hill facilities.

Overall, \$10,523,000 of liquidities were required for the operations of the second quarter of 2006 whereas the operations generated liquidities of \$3,572,000 for the same period in 2005.

SECOND QUARTER – SIX-MONTH PERIOD ENDED JUNE 30, 2006

REVIEW OF MINING OPERATIONS

KINIERO MINE

Six-month periods ended June 30	2006	2005
Operating statistics		
Ore mined (tonnes)	221,200	370,300
Ore processed (tonnes)	304,800	324,000
Head-grade (g/tonne)	3.02	3.62
Recovery (%)	95	93
Gold production (ounces)	28,100	35,000
Cash Operating Cost (\$/ounce produced)	322	247

For the six-month period ended June 30, 2006, a total of 221,200 tonnes of ore and 2,950,000 tonnes of waste were mined at Kiniero, representing a stripping ratio of 13:1. During the same period in 2005, a stripping ratio of 7:1 was reached with the mining of 370,300 tonnes of ore and 2,480,800 tonnes of waste. The Banfara, East-West and Jean West pits were the extraction areas during the first half of 2006.

A total of 304,800 tonnes of ore at an average grade of 3.02 g/t were processed at Kiniero during the six-month period ended June 30, 2006 compared with 324,000 tonnes of ore at an average grade of 3.62 g/t for the same period in 2005. The reduction in tonnage is mainly attributable to a national five-day strike in Guinea. The change in grade is due to the development of new pits, which generated a larger quantity of waste and partially led to a supply from the stockpiled inventories of lower-grade ore.

During the first half of 2006, the plant exceeded expectations, reaching a gold recovery rate of 95% compared with 93% during the same period in 2005.

During the six-month period ended June 30, 2006, we reached a production of 28,100 ounces of gold at a cash operating cost of \$322 per ounce compared with a production of 35,000 ounces at a cash operating cost of \$247 per ounce for the same period in 2005. The drop in the number of ounces produced and the change in the cash operating cost in 2006 are largely due to the processing of lower-grade ore combined with the increase in the price of fuel and reagents. This resulted in an increase in the cash operating cost for those ounces produced.

Outlook

In 2006, the Kiniero production target of 64,000 ounces is unreachable due to an early and heavy rain season which limited the exposure of expected high grade ore. We are currently working on a modified mine plan in order to maximize the 2006 production.

SAMIRA HILL MINE

Six-month periods ended June 30	2006	2005
Operating statistics		
Ore mined (tonnes)	618,000	888,600
Ore processed (tonnes)	556,100	667,500
Head-grade (g/tonne)	2.06	2.20
Recovery (%)	80	89
Gold production (ounces)	29,900	43,100
Cash Operating Cost ¹ (\$/ounce produced)	321	207

¹ excluding fixed expenses incurred during the temporary shutdown period

At the Samira Hill mine, 618,000 tonnes of ore and 3,178,000 tonnes of waste were mined from the Samira Main, Samira East and Libiri pits in the first half of 2006 compared with 888,600 tonnes of ore and 2,943,000 tonnes of waste for the same period in 2005.

During the same period, 556,100 tonnes of ore with an average grade of 2.06 g/t were processed at Samira Hill compared with 667,500 tonnes of ore with an average grade of 2.20 g/t in the first half of 2005. The decrease in tonnage is mainly attributable to the unexpected shutdown of the plant while the grade difference is largely due to the processing of ore mined from the Libiri pit.

The lower recovery rate is due to the processing of ore containing graphite and sulphide from the Samira Main pit.

A total of 29,900 ounces of gold were produced at Samira Hill during the first half of 2006 at a cash operating cost of \$321 per ounce compared with 43,100 ounces of gold at a cash operating cost of \$207 for the same period in 2005. The decrease in the number of ounces produced is due to the temporary shutdown of the plant. The increase in the cash operating cost per ounce is largely due to the lower recovery rate, additional blasting work and the increase in the cost of fuel and reagents.

Outlook

Due to the shutdown at Samira Hill, we revised our production target for 2006 to 65,000 ounces by processing 1,150,000 tonnes of ore at an average grade of 2.09 g/t.

STATEMENTS OF OPERATIONS

Significant Financial Data

(in accordance with Canadian generally accepted accounting principles)

Six-month periods ended June 30	2006	2005
Statements of operations and cash flows		
(in thousands \$, except for amounts per share)		
Gold sales	27,484	28,408
Net gain on gold sales contracts	560	567
Revenue	28,044	28,975
Net income (loss)	1,608	(789)
Net income (loss) per share		
Basic (\$)	0.01	(0.01)
Diluted (\$)	0.01	(0.01)
Operating cash flow ¹	4,319	6,806

¹ excluding net changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment

For the six-month period ended June 30, 2006, Semafo presents a net income of \$1,608,000 or \$0.01 per share compared with a net loss of \$789,000 or \$(0.01) per share for the same period in 2005. As disclosed above, the increase in the average selling price was offset by higher operating costs. Interest expenses were reduced following the significant debt reduction that took place in the last quarter of 2005. We also recorded a gain of \$1,437,000 following the disposal of shares of a publicly traded company.

Segmented information

Six-month period ended June 30, 2006				
(in thousands \$)	Kiniero mine Guinea	Samira Hill mine Niger	Others	Total
Gold sales	14,804	12,680	-	27,484
Net gain on gold sales contracts	-	560	-	560
Revenue	14,804	13,240	-	28,044
Mining operation expenses	9,249	12,251	-	21,800
Amortization of property, plant and equipment	1,828	3,566	14	5,408
Mining operations				
Gold sales (ounces)	26,200	33,600	-	59,800
Average selling price (\$/ounce)	565	377	-	459
Total cash cost (\$/ounce sold) ¹	372	349	-	359

Six-month period ended June 30, 2005				
(in thousands \$)	Kiniero mine Guinea	Samira Hill Gold mine Niger	Others	Total
Gold sales	11,976	16,432	-	28,408
Net gain on gold sales contracts	8	559	-	567
Revenue	11,984	16,991	-	28,975
Mining operation expenses	9,282	10,357	-	19,639
Amortization of property, plant and equipment	2,237	4,475	15	6,727
Mining operations				
Gold sales (ounces)	34,300	44,200	-	78,500
Average selling price (\$/ounce)	348	372	-	362
Total cash cost (\$/ounce sold) ¹	283	234	-	256

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

Gold sales

During the first half of 2006, a total of \$27,484,000 in gold sales was recorded, corresponding to the sale of 59,800 ounces of gold at an average price of \$459 per ounce. For the same period in 2005, sales totalled \$28,408,000, corresponding to the sale of 78,500 ounces of gold at an average price of \$362 per ounce. The drop in the number of ounces sold was offset by the increased price of gold sold on the market.

Kiniero

During the six-month period ended June 30, 2006, 26,200 ounces of gold from the Kiniero mine were sold at an average price of \$565 per ounce compared with the sale of 34,300 ounces of gold at an average price of \$348 per ounce for the same period in 2005. The significant increase in the average sales price is the result of the settlement of most of the Kiniero gold sales contracts in December 2005, which enabled us to sell the Kiniero production at spot price and therefore benefit from the higher price of gold on the market. In the six-month period ended June 30, 2005, 19,875 ounces were delivered under our gold sales contracts at an average price of \$296 per ounce.

Samira Hill

In the first half of 2006, a total of 33,600 ounces of gold from the Samira Hill mine were sold at an average price of \$377 per ounce compared with 44,200 ounces of gold at an average price of \$372 for the same period in 2005. In the first half of 2006 and 2005, virtually all of the sales were delivered under our gold sales contracts.

Net gain (loss) on gold sales contracts

During the six-month period ended June 2006, the net gain on the gold sales contracts totalled \$560,000 compared to \$567,000 for the same period in 2005. The losses and gains on gold sales contracts depend on the spot price on the deferral date compared to our contract sales price. This amount does not represent an obligation for payment, but the replacement value of the contract, based on market conditions prevailing on the deferral dates.

Samira Hill

During the first six months of 2006, the company deferred positions to the first quarter of 2007, resulting in an unrealized loss on the gold sales contracts of an amount of \$265,000.

The company also delivered gold against 2005 positions which have been deferred to the first six months of 2006, therefore reversing the unrealized loss on the gold sales contracts of 2005 for an amount of \$690,000.

The interest rate swap related to the gold sales contracts is effective since the beginning of the second quarter 2005. This swap leads to a total gain of \$462,000 during the six-month period ended June 30, 2006. From this gain, \$135,000 is accounted for in the consolidated statement of operations and deferred revenue of \$327,000 is presented in the liabilities.

The net gain of \$560,000 was accounted for in the consolidated statement of operations as an increase in gold sales and resulted in a decrease of deferred revenues for the same amount in the liabilities.

As at June 30, 2006, the gold sales contracts of Samira Hill provide for the delivery of 19,000 ounces of gold before December 31, 2006.

Mining Operation Expenses

Mining operating costs for the first half of 2006 totalled \$21,800,000 compared with \$19,639,000 for the same period in 2005. These costs correspond to the production of 59,800 ounces of gold for the first half of 2006 at a total cash cost of \$359 per ounce compared with the production of 78,500 ounces of gold at a total cash cost of \$256 for the same period in 2005.

Kiniero

Mining operating costs at Kiniero totalled \$9,249,000 for the first half of 2006 compared with \$9,282,000 for the same period in 2005. They represent the production costs of 26,210 ounces for the first half of 2006 at a total cash cost of \$372 per ounce compared with production costs of 34,300 ounces for the same period in 2005 at a total cash cost of \$283 per ounce.

Reconciliation of total cash cost per ounce to financial statements

Six-month periods ended June 30	2006	2005
Mining operation expenses per financial statements (in thousands \$)	9,249	9,282
Inventory write-down variation (in thousands \$)	494	448
Mining operation expenses for per ounce calculation (in thousands \$)	9,743	9,730
Ounces sold (ounces)	26,200	34,300
Total cash costs (\$/ounce sold)	372	283

Samira Hill

Mining operating costs at Samira Hill totalled \$12,551,000 for the first half of 2006 compared with \$10,357,000 for the same period in 2005. They represent the production costs of 33,600 ounces for the first half of 2006 at a total cash cost of \$349 per ounce compared with the production of 44,200 ounces for the same period in 2005 at a total cash cost of \$234 per ounce.

Reconciliation of total cash cost per ounce to financial statements

Six-month periods ended June 30	2006	2005
Mining operation expenses per financial statements (in thousands \$)	12,551	10,357
Fixed expenses incurred during the temporary shutdown period (in thousands \$)	(810)	-
Mining operation expenses for per ounce calculation (in thousands \$)	11,741	10,357
Ounces sold (ounces)	33,600	44,200
Total cash costs (\$/ounce sold)	349	234

Amortization of property, plant and equipment

The amortization expense related to mining operations amounted to \$5,394,000 for the six-month period ended June 30, 2006 or \$90 per ounce compared to \$6,712,000 for the same period in 2005 or \$85 per ounce.

Kiniero

The Kiniero amortization expense totalled \$1,828,000 for the first six months of 2006 compared to \$2,237,000 for the same period in 2005. The amortization expense per ounce is \$70 for the first six months of 2006 compared to \$65 in 2005.

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

Six-month periods ended June 30	2006	2005
Amortization of property, plant and equipment per financial statements (in thousands \$)	1,828	2,237
Ounces sold (ounces)	26,200	34,300
Amortization per ounce sold (\$/ounce sold)	70	65

Samira Hill

The Samira Hill amortization expense totalled \$3,566,000 for the first six months of 2006, or \$106 per ounce compared to \$4,475,000 for the same period in 2005, or \$101 per ounce.

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

Six-month periods ended June 30	2006	2005
Amortization of property, plant and equipment per financial statements (in thousands \$)	3,566	4,475
Ounces sold (ounces)	33,600	44,200
Amortization per ounce sold (\$/ounce sold)	106	101

Administration

Administration expenses totalled \$2,183,000 for the first six months of 2006, compared to \$671,000 for the same period in 2005. As previously mentioned, the increase is due mainly to the increase in our activities.

Loss on settlement of gold sales contracts

In February 2006, the company proceeded to the settlement of gold sales contracts, for a total amount of \$134,000, generating a loss of the same amount.

However, some of these gold sales contracts concern positions, initially scheduled before March 31, 2006, but deferred beyond this date, therefore reversing unrealized losses on gold sales contracts, of an amount of \$79,000.

Therefore, this operation generated a net loss of \$55,000, accounted for in the consolidated statement of operations.

Write-down of short-term investments

As at June 30 2006 and 2005, we had investments in publicly traded companies which are presented as short-term investments. As at June 30, 2006, the book value of these investments was \$3,547,000 and their fair market value was \$4,679,000, therefore representing a potential gain of \$1,132,000.

For some of these publicly traded companies, the share spot price had dropped in the six-month period ended June 30, 2005. Consequently, we wrote-down the value of those investments to their fair market value, generating a loss of \$371,000 accounted for in the consolidated statements of operations.

Gain on disposal of short-term investments

As previously explained, the company recorded a gain on disposal of short-term investments in the amount of \$1,437,000 following the disposal of shares of a publicly traded company.

Loss on disposal of investment in subsidiaries

As previously explained, the company generated in a loss on disposal of investment in a subsidiary of \$369,000 in June 2005.

Interest on long-term debt

Interest on long-term debt decreased of 70%, from \$1,306,000 for the first six months of 2005 to \$402,000 for the same period in 2006. As previously explained, this decrease is the result of the important reduction in indebtedness in December 2005.

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, generated liquidities of \$4,319,000 during the first six months of 2006, compared to a positive cash flow of \$6,806,000 for the same period in 2005.

The working capital items used liquidities of \$5,800,000 for the six-month period ended June 30, 2006, representing mainly an increase in inventories and a decrease in the accounts payable and accrued liabilities. During the same period in 2005, working capital items used liquidities of \$4,100,000.

Financing

During the six-month period ended June 30, 2006, we reimbursed \$1,518,000 of long-term debt compared to \$2,813,000 during the same period in 2005. This important decrease in the repayment of long-term debt is the result of the prepayments made in the first quarter 2005. Moreover, during the first six-month period of 2005, we cashed short-term loans for \$1,980,000.

During the first six months of 2006, 1,095,000 warrants and 176,000 stock options were exercised for a cash consideration of \$1,640,000. During the same period in 2005, 3,500,000 warrants were exercised for a cash consideration of \$3,925,000.

Investing

During the six-month period ended June 30, 2006, liquidities of \$2,081,000 were invested in mining assets compared to \$943,000 for the same period in 2005.

During the first six months of 2006, we invested on the Mana property \$1,160,000 in exploration and \$759,000 for the finalisation of the feasibility study and the engineering work. Moreover, an amount of \$162,000 was invested in exploration on other exploration projects. During the same period in 2005, we had invested \$484,000 in the feasibility study and in exploration on the Mana property. Moreover, we had invested \$459,000 in exploration on our other exploration projects.

Investments of \$13,267,000 in property, plant and equipment were made during the six-month period ended June 30, 2006 compared to investments of \$3,105,000 during the same period in 2005. The investments made in 2006 mainly include the increase in the stripping costs of \$3,506,000, exploration expenditures at Kiniero and Samira Hill of \$1,800,000 as well as the acquisition of mining equipment for \$5,870,000. In the corresponding period in 2005, the investments represented mainly the exploration expenditures on the Kiniero and Samira Hill sites and investment related to the Samira Hill facilities.

Overall, \$13,008,000 of liquidities was required for the operations during the first six months of 2006, whereas the operations generated liquidities of \$2,195,000 for the same period in 2005.

BALANCE SHEETS

The company's total assets amounted to \$127,691,000 as at June 30, 2006 compared to \$128,054,000 as at December 31, 2005. At June 30, 2006, we had cash and cash equivalents of \$9,200,000 compared to \$22,208,000 at December 31, 2005. This variation is explained in the consolidated statement of cash flows.

Total liabilities amounted to \$31,390,000 as at June 30, 2006 compared to \$35,368,000 as at December 31, 2005.

OFF-BALANCE SHEET TRANSACTIONS

Gold sales contracts

As at June 30, 2006, we had commitments to deliver 164,000 ounces of gold over the next four years at an average selling price of \$375.

		2006	2007	2008	2009	Total
Gold sales contracts ¹						
Ounces	(in thousands)	19	62	48	35	164
Average price	(\$ per ounce)	375	375	375	375	375

¹ Our positions 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.

Kiniero

In December 2005, given the favourable outlook for the price of gold, we redeemed most of the Kiniero gold sales contracts, representing a quantity of 59,128 ounces. The remainder of our gold sales contracts programme was delivered in January 2006, representing 2,571 ounces.

Consequently, since January 2006, the production of Kiniero is sold entirely at spot price.

Samira Hill

We proceeded to a price adjustment on all future positions of our adjustable gold sales contracts at a maximum price of \$390 per ounce. As a result, our commitments to deliver 164,000 ounces by 2009 will be carried out at an average price of \$375 per ounce.

Contractual obligations and commitments

Long-term debt

Pursuant to our long-term debts agreements, reimbursements required in each of the next three years are as follows:

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

Asset 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 \$3,583,000. 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 conventions, 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, we have 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%. In Guinea, we are also committed to invest 0.4% of our gold sales in local development expenditures.

Payment 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, we signed a seven years mining contract for the Samira Hill mine. The payments will be made over the approximated seven-year mine life. As at June 30, 2006, we are 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, subject to certain conditions.

Fuel Purchase Contract

In 2004, we signed a fuel procurement contract for the Samira Hill mine covering a period of seven years. As at June 30, 2006, we are liable for an amount of \$325,000 which represents the indemnity payable to the contractor if there is an early termination of the contract by the company.

Mining Equipment Purchase Contract

In March 2006, the company signed a contract to purchase mining equipment in the amount of \$8,600,000 in order to carry out mining activities for the future operation of the Mana project. This equipment will also be used to perform all of the project's civil engineering work. This fleet of equipment will be in operation during the last quarter of 2006.

In December 2005, the company signed a contract to purchase mining equipment in the amount of \$7,800,000 in order to carry out mining operations at the Kiniero mine. This fleet of equipment will be in operation by the end of the summer 2006.

RISKS AND UNCERTAINTIES

As any other mining producing companies, 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. We have long-term debt bearing fixed interest rate and long-term debt bearing interest at a LIBOR based rate.

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, we are often dependent on securing the necessary capital through loans or permanent capital. The availability of this capital is subject to general economic conditions and lender and investor interest in our projects. To ensure the availability of capital, we maintain investors' relations program in order to inform all shareholders, and potential investors of the development of our company.

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.

SUBSEQUENT EVENTS

Public offering

On July 13, 2006, the company closed a public offering of 12,500,000 common shares at \$1.84 (CA\$2.05) per share for gross proceeds of \$23,014,000 (CA\$25,625,000). In addition to the fees paid to the agent, the company granted 343,750 warrants. Each warrant entitles its holder to purchase one common share of the company at a price of \$1.84 (CA\$2.05) on or prior to July 13, 2007. The fair value of the warrants has been established at \$160,000.

Share issue expenses related to this public offering totalled \$1,883,000, inclusive of the warrants fair value.

Debt financing

Also, the company concluded an entirely un-hedged \$20,000,000 bank loan. The loan bears interest at a fixed annual rate of 8.5% and the principal is repayable in 16 equal quarterly installments, starting on September 30, 2007.

As part of this transaction, the company granted 800,000 warrants to the lender. Each warrant entitles its holder to purchase one common share of the company at a price of \$1.97 (CA\$2.25) on or prior to July 19, 2011. The fair value of the warrants has been established at \$656,000.

Expenses related to this transaction totalled \$1,258,000, inclusive of the warrants fair value.

SUPPLEMENTARY INFORMATION

Exchange rates are as follows:

\$CA/\$US	2005	2004
December 31 (closing)	-	1.1659
March 31 (closing)	1.1671	1.2096
June 30 (closing)	1.1150	1.2256
First quarter (average)	1.1549	1.2267
Second quarter (average)	1.1220	1.2439
First six-month period (average)	1,1376	1.2355

Additional Information and Continuous Disclosure

This MD&A has been prepared as of August 10, 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).

Forward-looking Statements

This report contains « forward-looking statements », including, but not limited to, the statements regarding the Company's expectations as to the spot price of gold, our strategic plans, use of hedging instruments, future commercial production, production targets, timetables, mine operating costs, property, plant and equipment expenditures, 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 spot 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.

SEMAFO inc.

Consolidated Balance Sheets

(unaudited, expressed in thousands of U.S. dollars)

	As at June 30, 2006 \$	As at December 31, 2005 \$
Assets		
Current assets		
Cash and cash equivalents	9,200	22,208
Short-term investments (fair market value - \$ 4,679 ; December 31, 2005 - \$ 5,493) (note 3)	3,547	5,337
Accounts receivable	3,211	2,077
Inventories (note 4)	13,024	11,671
Other short-term assets (note 5)	2,336	1,336
	<hr/> 31,318	<hr/> 42,629
Property, plant and equipment (note 6)	82,638	73,964
Mining assets	12,033	9,934
Other assets (note 7)	1,702	1,527
	<hr/> 127,691	<hr/> 128,054
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	8,897	10,451
Current portion of long-term debt	3,036	3,036
Deferred revenues (note 8)	577	952
	<hr/> 12,510	<hr/> 14,439
Long-term debt	6,786	8,304
Deferred revenues (note 8)	620	422
Advances payable	9,189	8,912
Asset retirement obligations for property, plant and equipment (note 9)	2,285	1,910
Minority interest	-	1,381
	<hr/> 31,390	<hr/> 35,368
Shareholders' Equity		
Share capital (note 10)	151,975	150,222
Contributed surplus (note 11)	1,183	929
Deficit	(56,857)	(58,465)
	<hr/> 96,301	<hr/> 92,686
	<hr/> 127,691	<hr/> 128,054

Approved by the Board,

Jean Lamarre, Director

Benoit La Salle, Director

SEMAFO inc.

Consolidated Statements of Operations and Deficit

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

	Three-month period ended		Six-month period ended	
	June 30		June 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenue				
Gold sales	14,983	15,827	27,484	28,408
Net gain (loss) on gold sales contracts (note 8)	(26)	(350)	560	567
	14,957	15,477	28,044	28,975
Expenses				
Mining operations	11,950	10,131	21,800	19,639
Amortization of property, plant and equipment	2,817	3,337	5,408	6,727
Administration	1,304	526	2,183	671
Stock-based compensation	318	46	367	92
Loss on settlement of gold sales contracts (note 8)	-	-	55	-
Accretion expense of asset retirement obligations (note 9)	38	23	76	46
	16,427	14,063	29,889	27,175
Earnings (loss) before the undernoted items	(1,470)	1,414	(1,845)	1,800
Interest, financing fees and other income	(70)	19	(191)	81
Write-down of short-term investments	-	-	-	371
Gain on disposal of short-term investments (note 3)	(1,437)	-	(1,437)	-
Loss on disposal of investment in subsidiaries	-	369	-	369
Interest on long-term debt	185	624	402	1,306
Amortization of deferred financing costs	20	36	40	65
Foreign exchange gain	(803)	(13)	(886)	(105)
Net income (loss) before minority interest	635	379	227	(287)
Minority interest in a subsidiary's net income (loss)	(934)	347	(1,381)	502
Net income (loss) for the period	1,569	32	1,608	(789)
Deficit – beginning of period	(58,426)	(41,433)	(58,465)	(40,612)
Deficit – end of period	(56,857)	(41,401)	(56,857)	(41,401)
Basic and diluted net income (net loss) per share	0.01	0.01	0.01	(0.01)

SEMAFO inc.

Consolidated Statements of Cash Flows

(unaudited, expressed in thousands of U.S. dollars)

	Three-month period ended		Six-month period ended	
	June 30		June 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Net income (loss) for the period	1,569	32	1,608	(789)
Items not affecting cash and cash equivalents				
Net loss (gain) on gold sales contracts	26	350	(560)	(567)
Amortization of property, plant and equipment	2,817	3,337	5,408	6,727
Stock-based compensation	318	46	367	92
Reversing of unrealized losses on the settlement of gold sales contracts	-	-	(79)	-
Accretion expense of asset retirement obligations	38	23	76	46
Write-down of short-term investments	-	-	-	371
Gain on disposal of short-term investments	(1,437)	-	(1,437)	-
Loss on disposal of investment in subsidiaries	-	369	-	369
Amortization of deferred financing costs	20	36	40	65
Unrealized foreign exchange loss (gain)	277	75	277	(10)
Minority interest in a subsidiary's net income (loss)	(934)	347	(1,381)	502
	<u>2,694</u>	<u>4,615</u>	<u>4,319</u>	<u>6,806</u>
Net changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment (note 12a)	<u>(5,924)</u>	<u>(735)</u>	<u>(5,800)</u>	<u>(4,100)</u>
	<u>(3,230)</u>	<u>3,880</u>	<u>(1,481)</u>	<u>2,706</u>
Financing activities				
Loans	-	(409)	-	1,980
Reimbursement of long-term debt	(1,384)	(1,563)	(1,518)	(2,813)
Issuance of share capital	1,221	3,925	1,640	3,925
	<u>(163)</u>	<u>1,953</u>	<u>122</u>	<u>3,092</u>
Investing activities				
Proceeds on disposal of short-term investments	3,227	-	3,227	-
Additions to mining assets	(1,613)	(445)	(2,081)	(943)
Additions to property, plant and equipment	(8,744)	(1,816)	(13,267)	(3,105)
Disposal of interest in subsidiaries	-	-	472	445
	<u>(7,130)</u>	<u>(2,261)</u>	<u>(11,649)</u>	<u>(3,603)</u>
Net change in cash and cash equivalents during the period	<u>(10,523)</u>	<u>3,572</u>	<u>(13,008)</u>	<u>2,195</u>
Cash and cash equivalents – beginning of period	<u>19,723</u>	<u>3,130</u>	<u>22,208</u>	<u>4,507</u>
Cash and cash equivalents – end of period	<u>9,200</u>	<u>6,702</u>	<u>9,200</u>	<u>6,702</u>

SEMAFO inc.

Notes to Consolidated Financial Statements

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

1 Basis of presentation

These consolidated interim financial statements are prepared in accordance with Canadian generally accepted accounting principles. These consolidated interim financial statements do not include all disclosures required under Canadian generally accepted accounting principles for annual audited financial statements. Accordingly, they should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended December 31, 2005.

The preparation of the consolidated financial statements compliant with generally accepted accounting principles requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented have been reflected in the interim consolidated financial statements

New Classification

Some comparative figures have been reclassified to comply with the presentation adopted for the period ended June 30, 2006.

2 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 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. Some 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.

SEMAFO inc.

Notes to Consolidated Financial Statements

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

3 Short-term investments

	As at June 30, 2006 \$	As at December 31, 2005 \$
Shares of publicly traded companies, at cost	6,219	8,929
Write-down of short-term investments	(2,672)	(3,592)
	<u>3,547</u>	<u>5,337</u>

In April 2006, the company recorded a gain on disposal of short-term investments in the amount of \$1,437,000 following the disposal of shares of a publicly traded company for a cash consideration of \$3,227,000.

4 Inventories

	As at June 30, 2006 \$	As at December 31, 2005 \$
Gold ingots	1,201	1,538
Gold in circuit	587	641
Stockpiles	5,160	5,142
Supplies and spare parts	6,076	4,350
	<u>13,024</u>	<u>11,671</u>

5 Other short-term assets

	As at June 30, 2006 \$	As at December 31, 2005 \$
Amount receivable on disposal of investment in a subsidiary – Semafo Ghana Ltd.	-	472
Prepaid expenses	2,336	864
	<u>2,336</u>	<u>1,336</u>

SEMAFO inc.

Notes to Consolidated Financial Statements

(unaudited, 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

	As at June 30, 2006		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Property acquisition costs, deferred exploration and development costs	74,537	24,280	50,257
Buildings and equipment related to mining production	24,844	7,208	17,636
Rolling stock, communication and computer equipment	11,239	2,447	8,792
Deferred stripping costs	5,953	-	5,953
	116,573	33,935	82,638

	As at December 31, 2005		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Property acquisition costs, deferred exploration and development costs	71,494	20,810	50,684
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
	102,991	29,027	73,964

7 Other assets

	As at June 30, 2006	As at December 31, 2005
	\$	\$
Deferred financing costs – net of accumulated amortization of \$ 581 (December 31, 2005 – \$ 541)	237	277
Restricted cash ⁽¹⁾	1,250	1,250
Others	215	-
	1,702	1,527

⁽¹⁾ A subsidiary is required to maintain a cash balance of \$1,250,000 until full repayment of a loan.

SEMAFO inc.

Notes to Consolidated Financial Statements

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

8 Deferred revenues and gold sales contracts

In February 2006, the company proceeded to the settlement of gold sales contracts, for a total amount of \$134,000, generating a loss of the same amount.

However, some of these contracts concern positions, initially scheduled before March 31, 2006, but deferred beyond this date, therefore reversing unrealized losses on gold sales contracts, of an amount of \$79,000.

Therefore, this operation generated a net loss of \$55,000, accounted for in the consolidated statement of operations.

During the first six months of 2006, the company deferred the delivery of part of its gold production to the first quarter of 2007, resulting in an unrealized loss on the gold sales contracts of an amount of \$265,000.

The company also delivered gold against the 2005 positions which have been deferred to the first six months of 2006, therefore reversing the unrealized loss on the gold sales contracts of 2005 for an amount of \$690,000.

The interest rate swap 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 \$462,000 for the six-month period ending June 30, 2006. From this gain, \$135,000 is accounted for in the consolidated statement of operations and \$327,000 is deferred and presented in liabilities.

The net gain of \$560,000 was accounted for in the consolidated statement of operations as an increase in gold sales and resulted in a decrease of deferred revenues for the same amount in liabilities.

9 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 June 30, 2006 \$	As at December 31, 2005 \$
Balance – beginning of period	1,910	1,156
Increase due to accretion expense	76	92
New liability	315	726
Liabilities paid off	(16)	(64)
Balance – end of period	<u>2,285</u>	<u>1,910</u>

SEMAFO inc.

Notes to Consolidated Financial Statements

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

9 Asset retirement obligations for property, plant and equipment (continued)

The estimated undiscounted cash flow required to settle the asset retirement obligations is \$ 3,583,000. Those payments are expected during the years 2006 to 2014. An 8% discount rate was used to evaluate those obligations.

10 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

Share capital

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

	As at June 30, 2006		As at December 31, 2005	
	Number (000)	Amount \$	Number (000)	Amount \$
Common shares				
Balance - beginning of period	134,184	148,168	90,364	87,094
Issued and paid in cash	-	-	40,000	55,750
Issued for exercises of options	176	262	300	291
Issued for exercises of warrants	1,095	1,886	3,520	5,033
Balance - end of period	135,455	150,316	134,184	148,168
Warrants				
Balance - beginning of period	5,696	2,054	7,591	2,332
Exercised during the period	(1,095)	(395)	(3,520)	(1,084)
Issued to agents	-	-	1,625	806
Balance - end of period	4,601	1,659	5,696	2,054
Common shares and warrants	140,056	151,975	139,880	150,222

During the first six months of 2006, 1,095,000 warrants and 176,000 options have been exercised for a cash consideration of \$1,491,000 and \$149,000 respectively.

SEMAFO inc.

Notes to Consolidated Financial Statements

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

10 Share-capital (continued)

Warrants

Warrants outstanding as at June 30, 2006:

Expiration date	Exercise price	Number of warrants
December 2006	\$1.20 (CA\$1.40)	3,282,000
December 2008	\$1.60 (CA\$1.87)	1,319,000
		<u>4,601,000</u>

Options

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

	As at June 30, 2006		As at December 31, 2005	
	Number of options (000)	Weighted average exercise price (\$)	Number of options (000)	Weighted average exercise price (\$)
Balance – beginning of period	2,282	1.09	2,432	0.95
Cancelled or expired	(47)	0.98	-	-
Exercised	(176)	0.85	(300)	0.39
Issued	2,655	2.39	150	1.38
Balance – end of period	<u>4,714</u>	<u>1.83</u>	<u>2,282</u>	<u>1.09</u>
Options exercisable – end of period	<u>1,802</u>	<u>1.16</u>	<u>1,888</u>	<u>1.09</u>

11 Contributed surplus

The contributed surplus account is composed of :

	As at June 30, 2006 \$	As at December 31, 2005 \$
Balance – beginning of period	929	884
Exercised options / expired options	(113)	(175)
Charges from valuation of options	367	220
Balance – end of period	<u>1,183</u>	<u>929</u>

SEMAFO inc.

Notes to Consolidated Financial Statements

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

12 Financial information included in the consolidated statements of cash flows

a) Net changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment

	Three-month period ended June 30		Six-month period ended June 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
Accounts receivable	(2,473)	1,220	(1,134)	(2,335)
Inventories	(599)	(1,657)	(1,871)	(2,643)
Other assets	(1,089)	(536)	(1,687)	(789)
Accounts payable and accrued liabilities	(1,981)	17	(1,554)	1,452
Settlement of liabilities related to asset retirement obligations for property, plant and equipment	(10)	(20)	(16)	(26)
Deferred revenue on swap of interest rate related to gold sales contracts	228	241	462	241
	(5,924)	(735)	(5,800)	(4,100)

b) Supplemental information on non-cash items

	Three-month period ended June 30		Six-month period ended June 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
Unrealized foreign exchange loss (gain) allocated to advances payable	277	69	277	92
Amortization of property, plant and equipment allocated to mining assets	10	4	18	13
Net effect of amortization of property, plant and equipment allocated to inventories	692	(226)	(518)	(254)
Asset retirement obligations for property, plant and equipment allocated to fixed assets	121	139	315	280
Share compensation on disposal of mining assets	-	1,019	-	1,019

c) Cash flows related to interest

	Three-month period ended June 30		Six-month period ended June 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
Interest paid during the period	390	395	417	845

SEMAFO inc.

Notes to Consolidated Financial Statements

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

13 Commitments

As at June 30, 2006, the commitments of the company related to gold sales contracts are as follows:

a) Gold sales contracts

	2006	2007	2008	2009	Total
Gold sales contracts ¹					
Ounces (in thousands)	19	62	48	35	164
Average price (\$ per ounce)	375	375	375	375	375

1 Our gold sales contracts include a swap of interest rate. Pursuant to the swap agreement, the company is committed to pay the difference between the "LIBOR" U.S.D 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.

In April 2006, we proceeded to a price adjustment on all future positions of our adjustable gold sales contracts, at the maximum price of \$390 per ounce. As a result, our commitments to deliver 164,000 ounces by 2009 will be carried out at an average price of \$375 per ounce.

b) Equipment purchase agreement

In March 2006, the company signed a contract to purchase mining equipment in the amount of \$8,600,000 in order to carry out mining activities for the future operation of the Mana project. This equipment will also be used to perform all of the project's civil engineering work. This fleet of equipment will be in operation during the last quarter of 2006.

In December 2005, the company signed a contract to purchase mining equipment in the amount of \$7,800,000 in order to carry out mining operations at the Kiniero mine. This fleet of equipment will be in operation by the end of the summer 2006.

SEMAFO inc.

Notes to Consolidated Financial Statements

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

14 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.

	Kiniero Mine, Guinée \$	Samira Hill Mine, Niger \$	Mana Project, Burkina Faso \$	Corporate and others \$	Total \$
Three-month period ended June 30, 2006					
Gold sales	9,543	5,440	-	-	14,983
Net loss on gold sales contracts	-	(26)	-	-	(26)
Revenue	9,543	5,414	-	-	14,957
Mining operating expenses	5,534	6,416	-	-	11,950
Amortization of property, plant and equipment	1,097	1,713	-	7	2,817
Acquisition of property, plant and equipment	7,074	1,679	93	18	8,864
Net income (loss)	2,953	(2,767)	-	1,383	1,569
Three-month period ended June 30, 2005					
Gold sales	7,659	8,168	-	-	15,827
Net gain (loss) on gold sales contracts	(685)	335	-	-	(350)
Revenue	6,974	8,503	-	-	15,477
Mining operating expenses	5,060	5,071	-	-	10,131
Amortization of property, plant and equipment	1,084	2,245	-	8	3,337
Acquisition of property, plant and equipment	(336)	2,236	52	3	1,955
Net income (loss)	578	420	-	(966)	32

SEMAFO inc.

Notes to Consolidated Financial Statements

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

14. Segmented information (continued)

	Kiniero Mine, Guinée \$	Samira Hill Mine, Niger \$	Mana Project, Burkina Faso \$	Corporate and others \$	Total \$
Six-month period ended June 30, 2006					
Gold sales	14,804	12,680	-	-	27,484
Net gain of gold sales contracts	-	560	-	-	560
Revenue	14,804	13,240	-	-	28,044
Mining operating expenses	9,249	12,551	-	-	21,800
Amortization of property, plant and equipment	1,828	3,566	-	14	5,408
Acquisition of property, plant and equipment	9,382	4,004	95	101	13,582
Net income (loss)	4,109	(3,208)	-	707	1,608
As at June 30, 2006					
Property, plant and equipment	24,589	57,568	158	323	82,638
Mining assets	-	-	9,480	2,553	12,033
Six-month period ended June 30, 2005					
Gold sales	11,976	16,432	-	-	28,408
Net gain of gold sales contracts	8	559	-	-	567
Revenue	11,984	16,991	-	-	28,975
Mining operating expenses	9,282	10,357	-	-	19,639
Amortization of property, plant and equipment	2,237	4,475	-	15	6,727
Acquisition of property, plant and equipment	(7)	3,321	64	7	3,385
Net income (loss)	311	603	-	(1,703)	(789)
As at June 30, 2005					
Property, plant and equipment	17,294	56,795	79	199	74,367
Mining assets	-	-	7,964	2,236	10,200

SEMAFO inc.

Notes to Consolidated Financial Statements

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

15 Comparative figures

Certain comparative data for the prior period were reclassified to conform to the presentation adopted for the period ended June 30, 2006.

16 Subsequent events

Public offering

On July 13, 2006, the company closed a public offering of 12,500,000 common shares at \$1.84 (CA\$2.05) per share for gross proceeds of \$23,014,000 (CA\$25,625,000). In addition to the fees paid to the agent, the company granted 343,750 warrants. Each warrant entitles its holder to purchase one common share of the company at a price of \$1.84 (CA\$2.05) on or prior to July 13, 2007. The fair value of the warrants has been established at \$160,000.

Share issue expenses related to this public offering totalled \$1,883,000, inclusive of warrants fair value.

Debt financing

Also, the company concluded an entirely un-hedged \$20,000,000 bank loan. The loan bears interest at a fixed annual rate of 8.5% and the principal is repayable in 16 equal quarterly installments, starting on September 30, 2007.

As part of this transaction, the company granted 800,000 warrants to the lender. Each warrant entitles its holder to purchase one common share of the company at a price of \$1.97 (CA\$2.25) on or prior to July 19, 2011. The fair value of the warrants has been established at \$656,000.

Expenses related to this transaction totalled \$1,258,000, inclusive of warrants fair value.

Investor Information

Requests for copies of the Annual Report, Quarterly Reports and Company Information may be addressed to:

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