



**Explore
Develop
Produce**

Quarterly report / Six-month period ended June 30, 2004

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

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 period ended June 30, 2004 to those of the comparative periods. This MD&A, prepared as of August 11, 2004, 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, 2003, our audited consolidated annual financial statements and notes thereto, together with our consolidated interim financial statements and notes thereto for the quarter ended June 30, 2004. 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 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.

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, future commercial production, production targets, timetables, mine operating costs, fixed assets expenses, mineral reserve 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, 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, risks related to the grade of reserves, risks related to hedging strategies, risks of delays in construction and requirements of additional financing.

SECOND QUARTER – THREE-MONTH ENDED JUNE 30, 2004

REVIEW OF MINING OPERATIONS

Three-month periods ended June 30	2004	2003
Production update		
Tonnage mined (tonnes)	130,284	139,478
Mined grade (g/tonne)	3.40	3.86
Ore processed (tonnes)	119,997	113,171
Head-grade (g/tonne)	3.52	3.82
Recovery (%)	93	86
Gold production (ounces)	12,682	11,911
Cash Operating Cost per ounce –		
Production basis (\$/ounce)	261	222

During the second quarter of 2004, we mined a total of 130,284 tonnes of ore at an average grade of 3.40 g/t compared to 139,478 tonnes at an average grade of 3.86 g/t during the same period in 2003. We also mined 1,441,295 tonnes of waste material during the second quarter of 2004 compared to 968,281 tonnes during the second quarter 2003. The Gobélé D pit, which presents an average grade of 3.73 g/t, was the main extraction zone in 2004. During the second quarter of 2004, we have extracted from this pit, 123,395 tonnes of ore and 1,361,634 tonnes of waste material.

We processed 119,997 tonnes of ore at our Kiniero mine, at an average grade of 3.52 g/t during the second quarter of 2004 compared to 113,171 tonnes of ore at an average grade of 3.82 g/t during the second quarter of 2003. In 2004, some improvements were done to the leaching process. Those improvements paired with the high friability of the ore from Gobélé D, enabled us to process more than 44,000 tonnes of ore in May and more than 47,000 tonnes in June 2004. Those improvements mainly represent the extension of the screens inside the leach tanks and the duplication of the leach tanks interconnection pipes. The replacement of major parts of the ball mill required its complete stoppage for 7 days, therefore reducing the processing of ore in April 2004.

The recovery rate significantly improved coming from 86% during the second quarter of 2003 to 93% for the same period in 2004. This improvement is due to the reduction of the crushed ore grain size and the commissioning of the new leach tank in the third quarter of 2003, which led to a significant improvement of the overall leaching process. Since September 2003, the recovery rate has been maintained above 92%.

During the second quarter of 2004, we produced 12,682 ounces of gold at a cash operating cost of \$261 per ounce compared to a production of 11,911 ounces at a cash operating cost of \$222 per ounce during the same period in 2003. The increase in cash operating cost is mainly explained by the stripping ratio, which is 10 to 1 during the second quarter of 2004 compared to 7 to 1 during the same period in 2003. In accordance with our accounting policy, when the actual stripping ratio is above the average estimated stripping ratio for the life of the mine, the portion of the mining costs representing the stripping difference is carried-over and presented as fixed assets. These costs are subsequently charged to operating costs in the period during which the said ratio is lower than the estimated average ratio for the life of the mine. During the second quarter of 2004, since the stripping ratio was 11 and the estimated stripping ratio for the life of the mine was 10 a portion of mining costs was accounted for as fixed assets. For the same quarter in 2003, the realized ratio was 7 while the estimated average ratio was 10. Even though the realized ratio was lower than the estimated average ratio, no additional cost was charged to operating costs since no cost had been deferred on the balance sheet during the previous periods.

STATEMENTS OF OPERATIONS

Significant Financial Data

(unaudited, in accordance with Canadian generally accepted accounting principles)

Six-month period ended June 30	2004	2003
Statements of operation and cash flows (\$)		
Gold sales	4,049,220	4,377,786
Operating loss	(952,758)	(717,207)
Net income (loss)	1,185,879	(1,207,876)
Net income (loss) per share		
Basic	0.01	(0.02)
Diluted	0.01	(0.02)
Operating cash flow*	197,222	619,749
Mining operation		
Gold sales (ounces)	12,798	13,096
Average selling price (\$/ounce)	316	334
Total cash cost (\$/ounce sold)**	286	236

* Excluding net changes in non-cash working capital items

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

For the three-month period ended June 30, 2004, Semafo presents a net income of \$1,185,879 (\$0.01 per share) compared to a net loss of \$1,207,876 (\$0.02 per share) for the same period in 2003. This variation is mainly due to a gain on disposal of investment in a subsidiary of \$1,869,210 and to a foreign exchange gain on an advance payable in Canadian dollar.

Gold sales

Gold sales for the second quarter of 2004 totalled \$4,049,220 compared to \$4,377,786 in 2003. We sold 12,798 ounces of gold at an average price of \$316 per ounce in 2004 compared to 13,096 ounces of gold at an average price of \$334 per ounce during the second quarter of 2003. In 2004, almost all of the second quarter production was delivered as per forward sales contracts at a price of \$295 per ounce, explaining the fall of the average selling price in 2004 compared to 2003.

Operating expenses

Operating expenses for the quarter ended June 30, 2004, totalled \$3,437,623 compared to \$3,254,642 for the same period in 2003. These operating expenses represent the production costs of 12,798 ounces of gold at a total cash cost of \$286 per ounce in 2004, compared to a production of 13,096 ounces of gold at a total cash cost of \$236 per ounce during the second quarter of 2003. As mentioned earlier, this increase in operating costs is mainly due to the higher stripping ratio in 2004 compared to 2003.

Reconciliation of total cash cost per ounce to financial statements

Three-month periods ended June 30	2004	2003
	\$	\$
Operating costs per financial statements	3,437,623	3,254,642
Stock depreciation	218,239	(163,285)
Operating costs for per ounce calculation	3,655,862	3,091,357
Ounces sold	12,798	13,096
Total cash costs per ounce sold	286	236

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

Unrealized loss on deferred forward contracts

Following the restructuring of our forward sales program last February, we must deliver 2,571 ounces of gold per month compared to 3,333 ounces as per the initial program. Therefore the delivery of 762 ounces is deferred every month generating an unrealized loss on forward sales contracts. The unrealized loss on forward sales contract depends on spot price on the deferral date compared to our forward sales price. This unrealized loss does not represent an obligation for payment, but the replacement value of the contract based on market conditions prevailing on the deferral dates. The unrealized loss on the forward sales contract is established at \$308,161 for the second quarter of 2004. In addition, during this quarter, we delivered 3,127 ounces of gold against forward sales contracts maturing in July and August 2004, therefore generating a gain of \$329,532. During the second quarter 2004, we accounted for a net gain of \$21,371 on deferred forward sales contract.

Amortization of fixed assets

Almost all of the amortization expenses come from Kiniero's fixed assets used in the operation. Those fixed assets mainly represent deferred exploration expenditures and buildings and equipments related to mining production which are essentially amortized using the units of production method over the expected operating life of the mine based on estimated recoverable ounces of gold. The amortization expenses amounted to \$1,116,108 for the three-month period ended June 30, 2004 compared to an amortization expenses of \$1,460,348 for the same period in 2003. The amortization expense per ounce is \$81 in 2004 compared to \$108 in 2003. This important decrease in the amortization expenses per ounce is due to the increase of the proven and probable reserves used as calculation basis for the amortizations. Following exploration work done during 2003, the updated reserves of Kiniero as at December 31, 2003, revealed a significant increase in the mineable reserves, which resulted in the replacement of the reserves mined in 2003.

Reconciliation of amortization of fixed assets per ounce to financial statements

Three-month period ended June 30	2004	2003
	\$	\$
Amortization of fixed assets per financial statements	1,116,108	1,460,348
Amortization of asset retirement obligations	(70,675)	(44,779)
Amortization of fixed assets not at operating mine site	(5,384)	(8,000)
Amortization of fixed assets for per ounce calculation	1,040,049	1,407,569
Ounces sold	12,798	13,096
Amortization per ounce sold	81	108

Administration

Administration expenses went from \$375,199 during the second quarter of 2003, to \$460,058 for the same period in 2004. This increase is mainly due to an increase in consulting fees. For the following quarters of 2004, the administration expenses should be maintained at the same level than the ones recorded in the second quarter of 2004.

Interests and other income

Interests and other income decreased, from \$61,192 for the second quarter of 2003 to \$24,471 for the same period in 2004. This variation is mainly due to a lower level of cash and cash equivalents in 2004 compared to the same period last year, and to the decrease of other income. These other income represent the sharing of administrative expenses with other companies. This sharing is non-recurring and subject to variation.

Gain on disposal of investment in a subsidiary

During the three-month period ended June 30, 2004, the company signed an agreement with Nevsun according to which the company received 1,420,000 shares of Nevsun to settle the sale price for the Segala Mining Corporation SA which took place in July 2002. The issuance of those shares replaces the final payment of the sale price of \$4,000,000 that was supposed to be paid in two equal instalments in July 2004 and July 2005. Upon closing, the shares received were valued at \$3,869,210. As at December 31, 2003, taking into consideration the uncertainty of recovery and value of the amount of \$2,000,000 receivable in 2005, we did not account for this amount receivable. As at June 30, 2004, we consider that these uncertainties were reduced. Therefore, we have accounted for an amount receivable and a gain on disposal of investment in a subsidiary of \$1,869,210.

Interests on long-term debt

Interests on the long-term debt decreased from \$328,500 for the three-moth period ended June 30, 2003 to \$168,503 for the same period in 2004. This decrease is the result of a prepayment of \$5,000,000 on our long-term debt bearing a 12% interest rate, made during the first quarter of 2004. No other reimbursements are expected during 2004.

The interests on the long-term debt for the financing of the Samira Hill construction are currently capitalized in the mining assets. When the project reaches commercial production, forecasted for September 2004, these interests will be expensed.

Foreign exchange loss

During the three-month period ended June 30, 2004, we recorded a foreign exchange gain of \$348,658 compared to a foreign exchange loss of \$286,786 for the same period in 2003. Those exchange gain and loss are mainly due to the conversion in U.S., at the end of period exchange rate, of an advance payable to a minority interest, denominated in Canadian dollars. During the second quarter of 2004, the depreciation of the Canadian dollar compared to the US dollar generated a foreign exchange gain of \$143,881 on this advance payable. In 2003, appreciation of the Canadian dollar compared to the US dollar generated a foreign exchange loss of \$427,415 on this same advance. This advance is non-interest bearing and has no specific terms of repayment.

Exchange rates are as follows:

\$CA/\$US	2004	2003
March 31 (closing)	1.3105	1.4693
June 30 (closing)	1.3404	1.3475
Second quarter (average)	1.3592	1.3984

CASH FLOW STATEMENTS

Operating

Operating activities, before net changes in non-cash working capital items, generated a cash flow of \$197,222 for the quarter ended June 30, 2004, compared to a cash flow of \$619,749 for the same period in 2003. This variance is mainly due to the decrease in gold sales and to the increase in operating costs at Kiniero.

Working capital items generated liquidities of \$1,328,487 during the second quarter of 2004 compared to \$338,504 in 2003. This important variation is explained by the increase of account receivable resulting from a gold delivery at the end of June 2004.

Financing

During this quarter, we received \$1,235,000 on a long-term debts of \$1,615,000 for the financing of the power plant for the Samira Hill project.

Investing

During the second quarter of 2004, liquidities of \$5,114,094 were invested in mining assets compared to \$346,686 for the same period in 2003. In 2004 the investments consist mainly of costs related to the construction of the Samira Hill mine while in 2003, the investments mainly represented the exploration work done on the Mana project in Burkina Faso.

In Burkina Faso, liquidities of approximately \$71,000 were invested in the feasibility study of the Mana project for a total of \$671,000 against a budget of \$900,000. During the second quarter of 2004, we have invested approximately \$235,780 in exploration on that property compared to \$285,773 during the same period in 2003.

Investments of \$1,185,255 in fixed assets were realized in 2004, mainly at Kiniero. These investments mainly represent exploration expenditures and the acquisition of equipments and material related to the new ball mill, for which commissioning is planned for the fourth quarter of 2004.

Total liquidities of \$6,268,612 were necessary for the operations during the second quarter of 2004, whereas operations for the second quarter of 2003 required liquidities of \$660,337.

SECOND QUARTER –SIX-MONTH PERIOD ENDED JUNE 30, 2004

REVIEW OF MINING OPERATIONS

Six-month periods ended June 30	2004	2003
Production update		
Tonnage mined (tonnes)	203,783	240,225
Mined grade (g/tonne)	3.37	4.37
Ore processed (tonnes)	219,887	229,088
Head-grade (g/tonne)	3.45	4.16
Recovery (%)	93	88
Gold production (ounces)	22,790	27,417
Cash Operating Cost per ounce – Production basis (\$/ounce)	269	203

During the six-month period ended June 30, 2004, we mined a total of 203,783 tonnes of ore at an average grade of 3.37 g/t compared to 240,225 tonnes at an average grade of 4.37 g/t during the same period in 2003. We also mined 2,738,313 tonnes of waste material in 2004, compared to 1,894,327 tonnes during the first six months of 2003. This 23% decrease in grade is mainly due to the mining activities performed in the Gobélé B North pit, during the first quarter of 2004, which revealed grades lower than expected. In addition during the second quarter of 2004, mining activities were performed in the Gobélé D pit, which presents an average grade of 3.73 g/t. During the first quarter of 2004, important stripping work was done in the Gobélé D pit, therefore limiting the ore extraction capacity. This explains the 15% decrease in tonnage of ore.

We processed 219,887 tonnes of ore at our Kiniero mine, at an average grade of 3.45 g/t during the first six months of 2004 compared to 229,088 tonnes of ore at an average grade of 4.16 g/t during the same period last year. This decrease of tonnage processed is explained by the replacement of major parts of the ball mill and by its programmed maintenance, which required its complete stoppage for 19 days during the six-month period of 2004. The impact caused by the ball mill shutdown was partially offset by the improvements to the processing plant, which enabled us to process more tonnage during the second quarter of 2004.

The recovery rate significantly improved coming from 88% during the first half of 2003 to 93% for the same period in 2004. As previously discussed, this improvement is due to the reduction of the crushed ore grain size and the commissioning of the new leach tank, which starts operating during the third quarter of 2003.

During the six-month period ended June 30, 2004, we produced 22,790 ounces of gold at a cash operating cost of \$269 per ounce compared to a production of 27,417 ounces at a cash operating costs of \$203 for the same period in 2003 representing a 17% decrease in production and a 32% increase of cash operating costs. The lower grade and the higher stripping ratio in 2004 explain those important fluctuations.

STATEMENTS OF OPERATIONS

Significant Financial Data

(unaudited, in accordance with Canadian generally accepted accounting principles)

Six-month periods ended June 30	2004	2003
Statements of operation and cash flows (\$)		
Gold sales	7,193,656	9,070,329
Operating loss	(2,320,608)	(819,129)
Net income (loss)	5,083,162	(1,615,290)
Net income (loss) per share		
Basic	0.06	(0.02)
Diluted	0.06	(0.02)
Operating cash flow*	(452,016)	1,960,175
	As at June 30, 2004	As at December 31, 2003
Balance sheet (\$)		
Cash and cash equivalents	2,213,896	17,421,266
Total assets	101,848,759	94,931,556
Total long-term debt	19,735,000	19,700,000
Shareholders' Equity	58,765,207	53,682,045
	Six-month period ended June 30, 2004	Six-month period ended June 30, 2003
Mining operation		
Gold sales (ounces)	22,507	27,068
Average selling price (\$/ounce)	320	335
Total cash cost (\$/ounce sold)**	295	225

* Excluding net changes in non-cash working capital items

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

For the six-month period ended June 30, 2004, Semafo presents a net income of \$5,083,162 (\$0.06 per share) compared to a net loss of \$1,615,290 (\$0.02 per share) for the same period in 2003. This variation is mainly due to gains on disposal of investments in subsidiaries of \$7,323,267 partly offset by the increase in production costs as previously explained.

Gold sales

For the six-month period ended June 30, 2004, gold sales totalled \$7,193,656 representing 22,507 ounces of gold at an average price of \$320 per ounce. For the same period in 2003, gold sales totalled \$9,070,329 representing 27,068 ounces of gold at an average price of \$335 per ounce.

Operating expenses

Operating expenses for the six-month period ended June 30, 2004, totalled \$6,539,012 compared to \$6,255,258 for the same period in 2003. These operating expenses represent the production of 22,507 ounces of gold at a total cash cost of \$295 per ounce in 2004, compared to production of 27,068 ounces of gold at a total cash cost of \$225 per ounce in 2003. This increase in costs is mainly due to the processing of ore at a lower grade and to the higher stripping ratio in 2004 compared to 2003.

Reconciliation of total cash cost per ounce to financial statements

Six-month period ended June 30	2004	2003
	\$	\$
Operating costs per financial statements	6,539,012	6,255,258
Stock depreciation	105,208	(163,285)
Operating costs for per ounce calculation	6,644,220	6,091,973
Ounces sold	22,507	27,068
Total cash costs per ounce sold	295	225

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

Unrealized loss on deferred forward contracts

During the six-month period of 2004, we restructured our forward sales program, in order to reduce the monthly quantity of ounces to be delivered under this program. Therefore, some hedging positions have been deferred to future years generating an unrealized loss on deferred forward contracts of \$146,789.

Amortization of fixed assets

The amortization expenses amounted to \$1,940,261 for the six-month period ended June 30, 2004 compared to an amortization expenses of \$2,945,265 for the same period in 2003. The amortization expense per ounce is \$80 in 2004 compared to \$105 in 2003. As previously explained, this important decrease in the amortization expenses per ounce is due to the increase of the proven and probable reserves used as calculation basis for the amortizations. Following different investments forecasted for 2004 on the Kiniero site and considering the start-up of the Samira Hill in September 2004, the amortization expense per ounce should increase by approximately \$14 to reach approximately \$94 per ounce as at December 31, 2004

Reconciliation of amortization of fixed assets per ounce to financial statements

Six-month period ended June 30	2004	2003
	\$	\$
Amortization of fixed assets per financial statements	1,940,261	2,945,265
Amortization of asset retirement obligations	(122,635)	(89,558)
Amortization of fixed assets not at operating mine site	(12,392)	(16,000)
Amortization of fixed assets for per ounce calculation	1,805,234	2,839,707
Ounces sold	22,507	27,608
Amortization per ounce sold	80	105

Administration

Administration expenses increased from \$679,327 during the six-month period ended June 30, 2003, to \$869,082 for the same period in 2004. As previously explained, this increase is mainly due to an increase in consulting fees.

Interests and other income

Interests and other income decreased, from \$160,295 for the six-month period ended June 30, 2003 to \$49,792 for the same period in 2004. As previously explained, this variation is mainly due to a lower level of cash and cash equivalents in 2004 compared to the same period last year and, to the decrease of other income. This decrease in cash and cash equivalent is explained by the construction of the Samira Hill project, which started at the beginning of the third quarter of 2003.

Gain on disposal of investment in a subsidiary

During the first quarter of 2004, we sold our interests in Semafo Ghana Limited, owner of the Ebi-Teleku property, for a total consideration valued at \$545058. This consideration represents 4,000,000 common shares of Adamus Ressources Limited issued upon closing and valued at \$4041,312 and cash payments of \$1,500,000 of which \$300,000 were received on closing and remaining amount will be paid in the next two years. On the transaction date, the discounted value of the cash portion has been established at \$1,412,746. Since the carrying value of the company's interest in Semafo Ghana Limited was \$1, the company realised a gain of \$5,454,057.

As previously discussed, as at June 30, 2004, we consider that the uncertainty of recovery and value of the amount receivable from Nevsun in 2005 are reduced. Therefore, we have accounted for an amount receivable and a gain on disposal of investment in a subsidiary of \$1,869,210.

Interests on long-term debt

Interests on the long-term debt decreased from \$673,560 for the six-month period ended June 30, 2003 to \$389,300 for the same period in 2004. This decrease is the result of a prepayment of \$5,000,000 on our long-term debt bearing a 12% interest rate, made in February 2004.

Foreign exchange gain or loss

During the six-month period ended June 30, 2004, we recorded a foreign exchange gain of \$268,868 compared to a foreign exchange loss of \$398,924 for the same period in 2003. As previously explained, those exchange loss and gain are primarily due to the conversion of the advance payable to a subsidiary's minority shareholder, denominated in Canadian dollars and converted at the end of period exchange rate.

Exchange rates are as follows:

\$CA/\$US	2004	2003
December 31 (closing)	-	1.2924
June 30 (closing)	1.3404	1.3475
Six-month period (average)	1.3384	1.4543

CASH FLOW STATEMENTS

Operating

Operating activities, before net changes in non-cash working capital items, generated a negative cash flow of \$452,016 for the six-month period ended June 30, 2004, compared to a positive cash flow of \$1,960,175 for the same period in 2003. This change is mainly due to the decrease in gold sales and to the increase in operating costs at Kiniero.

Working capital items required liquidities totalling \$198,591 in 2004. In 2003, those elements generated liquidities of \$352,056.

Financing

In accordance with our intentions expressed during the private placement made in December 2003, we have executed, in February 2004, a prepayment of \$5,000,000 on our long-term debt in order to reduce the interest expenses. We have also received \$1,235,000 on the long-term debt related to the Samira Hill project. As at June 30, 2004, a long-term debt totalling \$12,880,000 was still not disbursed

Investing

During the first six months of 2004, liquidities of \$12,575,539 were invested in mining assets compared to \$919,461 for the same period in 2003. Almost all investments in 2004 are related to the construction of the Samira Hill mine whereas in 2003, the investments mainly represented the exploration work done on the Mana project in Burkina Faso.

As at June 30, 2004, investments of approximately \$22,700,000 were realized for the construction of Samira Hill. The total investment budget for this construction phase is \$27,000,000. In 2000 and 2001, we started the first construction phase of the Samira Hill project, spending approximately \$4,000,000, which brings the total budget for this construction to approximately \$31,000,000.

In Burkina Faso, liquidities of approximately \$229,000 were invested in the feasibility study of the Mana project for a total of approximately \$671,000 against a budget of \$900,000. As at June 30 2004, on an exploration budget of more than \$1,000,000, we have invested \$735,000 on this property.

Investments of \$2,658,637 in fixed assets were realized in 2004, mainly at Kiniero. These investments mainly represent the stripping work on the Gobélé D pit and exploration expenditure at Kiniero. The average estimated stripping ratio for the life of the mine is approximately 10 to 1. When the realized ratio is above the average estimated ratio for the life of the mine, the portion of the mining costs representing the stripping difference is carried-over and presented as fixed assets. The stripping ratio realized during the first six-month of 2004 was more than 10 to 1, hence a total of \$941,000 was accounted for as fixed assets. During the same period in 2003, no amount was accounted for to fixed assets as the realized ratio was lower than the estimated average ratio for the life of the mine.

During the six-month period ended June 30, 2004, we received \$500,000 in cash in relation to the disposal of our investment in Semafo Ghana Ltd.

Total liquidities of \$15,185,743 were necessary for the operations during the six-month period ended June 30, 2004, whereas operations generated liquidities of \$233,470 during the same period in 2003.

BALANCE SHEETS

The company's total assets amounted to \$101,848,759 as at June 30, 2004, compared to \$94,931,556 as at December 31, 2003. This increase of approximately \$6,900,000 is mainly attributable to the increase of the other assets, following the disposal of investments in subsidiaries, which led to a gain of \$7,323,267. As at June 30, 2004, cash and cash equivalents amounted \$2,213,896 compared to \$17,421,266 as at December 31, 2003.

Mining assets went from \$50,748,954 as at December 31, 2003 to \$63,406,159 as at June 30, 2004. This increase mainly represents the investments realized for the construction of the Samira Hill mine in Niger.

Other long-term assets went from \$1,066,299 as at December 31, 2003 to \$5,572,846 as at June 30, 2004. This important increase represents the investment in common shares of Adamus, received on the closing of the sale of Semafo Ghana Ltd, and the discounted value of the amount receivable from Adamus beyond the next twelve months, amounting to \$456,123.

Stocks increased by \$1,025,044 during the first six-month of 2004. This increase is mainly due to the first arrival of consumables for the Samira Hill mine. Considering the beginning of production scheduled for September 2004 and in order to avoid problems related to transportation during the rainy season, it was important that those orders be received before the end of June.

The long-term debt amounted to \$19,735,000 as at June 30, 2004, compared to \$19,700,000 as at December 31, 2003. Liabilities amounted to \$43,083,552 as at June 30, 2004 compared to \$41,249,511 as at December 31, 2003.

OFF-BALANCE SHEET TRANSACTIONS

Gold forward 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 June 30, 2004, we had commitments to deliver 405,000 ounces of gold over the next six years at an average sale price currently valued at \$345.

		2004	2005	2006	2007	2008	2009	Total
Adjustable gold forwards								
Ounces	(in thousand)	19	35	29	26	24	17	150
Average price	(\$ per ounce)	372	375	360	360	360	360	365
Gold forwards								
Ounces	(in thousand)	32	65	60	57	24	17	255
Average price	(\$ per ounce)	334	330	327	325	360	360	333

Samira Hill

In 2003, we entered into forward sales contracts for the Samira Hill project for a total of 300,000 ounces distributed over the years 2004 to 2009. It includes forward sales for 150,000 ounces at a fixed price of \$360 per ounce and adjustable forward sales for 150,000 ounces. The adjustable program has a base price at \$360 per ounce, but the price can reach \$390 per ounce depending on the prevailing spot price on different dates during the term of the program. Some positions include a swap of interest rate, whereby we pay a floating rate and receive a fixed rate of 1% per annum.

During the second quarter of 2004, we adjusted the price of our positions for the second quarter of 2005, fixing the price of 8,625 ounces at \$390 per ounce. During the first quarter of 2004, we had fixed the price of 8,625 ounces to be delivered during the first quarter of 2004 at \$390 per ounce. As at June 30, 2004, we have commitments for the delivery of 300,000 ounces of gold at an average price of \$363 per ounce, over the years 2004 to 2009.

Kiniero

During the second quarter of 2004, we delivered 10,180 ounces under our hedging program at an average price of \$295 per ounce, from which 3,127 ounces relates to hedging positions initially maturing in July and August 2004.

During the first quarter of 2004, in order to take advantage of the increase in spot price and to improve our cash flow, we restructured our Kiniero's forward sales program. This restructuring reduces the monthly quantity of ounces to be delivered under our forward program from 3,333 ounces to 2,571 ounces, now representing a yearly total of 30,852 ounces. That will allow us to sell more ounces at spot price. Following this restructuring, we have commitments, as of June 30, 2004, to deliver 105,000 ounces of gold at a price of \$296 per ounce, over the years 2004 to 2007.

RISKS AND UNCERTAINTIES

As a mining producing company, we face the environment, operations, financials 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 sale 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, to 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 Kiniero plant.

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 lenders and investors 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 our development.

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 estimate our reserves in accordance with guidelines and standards within the mining industry and the security commission. Furthermore, we employ experienced mining contractors and a trained workforce 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 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.

STRATEGY AND GOALS

Our goal is to maximize the value for our shareholders and our strategy to achieve this goal is primarily to focus on the development of gold properties we already possess.

ACHIEVEMENTS FOR THE SECOND QUARTER OF 2004

- ✦ **Record throughput of more than 47,000 tonnes in June 2004, for a total of more than 119,000 tonnes during the second quarter of 2004 at Kiniero.**
- ✦ **Progression of the construction of the Samira Hill mine, in Niger for a start-up scheduled for September 2004.**
- ✦ **Progression of the feasibility study for the Mana project, in Burkina Faso.**

GOALS 2004

- ✦ **Continue current exploration programs and discover new mineral zones at the Kiniero mine.**
- ✦ **Produce 50,000 ounces of gold at Kiniero.**
- ✦ **Increase by 30% the milling capacity of the Kiniero plant.**
- ✦ **Complete the construction of the Samira Hill mine and produce 45,000 ounces.**
- ✦ **Complete the certification of the mineral resources and the feasibility study of the Mana project.**
- ✦ **Negotiate the mining convention and secure financing for the Mana project.**

Additional Information and Continuous Disclosure

This MD&A has been prepared as of August 11, 2004. 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 June 30, 2004 and December 31, 2003

(unaudited, expressed in U.S. dollars)

	As at June 30, 2004 \$	As at December 31, 2003 \$ (note 3)
Assets		
Current assets		
Cash and cash equivalents	2,213,896	17,421,266
Short-term investments	-	352,554
Accounts receivable	1,774,905	703,719
Stocks (note 5)	3,834,710	2,809,666
Other assets (note 6)	5,414,220	2,897,562
	<u>13,237,731</u>	<u>24,184,767</u>
Fixed assets (note 7)	19,632,023	18,931,536
Mining assets	63,406,159	50,748,954
Other assets (note 8)	5,572,846	1,066,299
	<u>101,848,759</u>	<u>94,931,556</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	11,379,598	9,551,178
Long-term debt (note 9)	19,735,000	19,700,000
Deferred gains	1,983,731	1,836,942
Advances payable	8,123,616	8,303,312
Asset retirement obligations (note 10)	605,826	478,023
Minority interest	1,255,781	1,380,056
	<u>43,083,552</u>	<u>41,249,511</u>
Shareholders' Equity		
Share capital	89,353,279	89,353,279
Deficit	(30,588,072)	(35,671,234)
	<u>58,765,207</u>	<u>53,682,045</u>
	<u>101,848,759</u>	<u>94,931,556</u>

SEMAFO inc.

Consolidated Deficit

For the periods ended June 30 2004 and 2003

(unaudited, expressed in U.S. dollars)

	Three-month period ended June 30		Six-month period ended June 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
		(note 3)		(note 3)
Deficit – Beginning of period – as previously reported	(31,773,951)	(27,084,056)	(35,746,708)	(26,674,885)
Change in accounting policies (note 3)	-	48,440	75,474	46,683
Restated balance – beginning of period	(31,773,951)	(27,035,616)	(35,671,234)	(26,628,202)
Net income (net loss) for the period	1,185,879	(1,207,876)	5,083,162	(1,615,290)
Deficit at the end of the period	(30,588,072)	(28,243,492)	(30,588,072)	(28,243,492)

SEMAFO inc.**Consolidated Statements of Operations
For the periods ended June 30, 2004 and 2003**

(unaudited, expressed in U.S. dollars)

	Three-month period ended June 30		Six-month period ended June 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
		(note 3)		(note 3)
Gold sales	4,049,220	4,377,786	7,193,656	9,070,329
Expenses				
Operating	3,437,623	3,254,642	6,539,012	6,255,258
Unrealized (gain) loss on deferred forward contracts	(21,371)	-	146,789	-
Amortization of fixed assets	1,116,108	1,460,348	1,940,261	2,945,265
Administration	460,058	375,199	869,082	679,327
Accretion expense of asset retirement obligations (note 10)	9,560	4,804	19,120	9,608
	5,001,978	5,094,993	9,514,264	9,889,458
Operating loss	(952,758)	(717,207)	(2,320,608)	(819,129)
Interest and other income	(24,471)	(61,192)	(49,792)	(160,295)
Accretion of an amount receivable on disposal of investment in a subsidiary (note 6)	(15,735)	-	(26,868)	-
Gain on disposal of investment in a subsidiary	(1,869,210)	-	(7,323,267)	-
Interest on long-term debt	168,503	328,500	389,300	673,560
Foreign exchange (gain) loss	(348,658)	286,786	(268,868)	398,924
Net income (net loss) before minority interest	1,136,813	(1,271,301)	4,958,887	(1,731,318)
Minority interest in a subsidiary's net loss	(49,066)	(63,425)	(124,275)	(116,028)
Net income (net loss) for the period	1,185,879	(1,207,876)	5,083,162	(1,615,290)
Net income (net loss) per share				
Basic	0.01	(0.02)	0.06	(0.02)
Diluted	0.01	(0.02)	0.06	(0.02)

SEMAFO inc.**Consolidated Statements of Cash Flows
For the periods ended June 30, 2004 and 2003**

(unaudited, expressed in U.S. dollars)

	Three-month period ended June 30		Six-month period ended June 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Net profit (net loss) for the period	1,185,879	(1,207,876)	5,083,162	(1,615,290)
Items not affecting cash and cash equivalents				
Unrealized (gain) loss on deferred forward contracts	(21,371)	-	146,789	-
Amortization of fixed assets	1,116,108	1,460,348	1,940,261	2,945,265
Accretion expense of asset retirement obligations	9,560	4,804	19,120	9,608
Accretion of an amount receivable on disposal of investment in a subsidiary	(15,735)	-	(26,868)	-
Gain on disposal of investment in a subsidiary	(1,869,210)	-	(7,323,267)	-
Unrealized foreign exchange (gain) or loss	(158,943)	425,898	(166,938)	736,620
Minority interest	(49,066)	(63,425)	(124,275)	(116,028)
	<u>197,222</u>	<u>619,749</u>	<u>(452,016)</u>	<u>1,960,175</u>
Net changes in non-cash working capital items				
Accounts receivable	(859,491)	(278,424)	(1,071,186)	337,221
Stocks	(420,792)	(311,161)	(991,868)	(385,830)
Other assets	292,653	(188,999)	36,043	(199,414)
Accounts payable and accrued liabilities	(340,857)	440,080	1,828,420	600,079
	<u>(1,328,487)</u>	<u>(338,504)</u>	<u>(198,591)</u>	<u>352,056</u>
	<u>(1,131,265)</u>	<u>281,245</u>	<u>(650,607)</u>	<u>2,312,231</u>
Financing activities				
Long-term debt	1,235,000	-	5,035,000	-
Reimbursement of long-term debt	-	(1,000,000)	(5,000,000)	(1,000,000)
	<u>1,235,000</u>	<u>(1,000,000)</u>	<u>35,000</u>	<u>(1,000,000)</u>

Approved by the Board

SEMAFO inc.

Consolidated Statements of Cash Flows ...continued

For the periods ended June 30, 2004 and 2003

(unaudited, expressed in U.S. dollars)

	Three-month period ended		Six-month period ended	
	June 30		June 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
		(note 3)		(note 3)
Investing activities				
Proceeds on disposal of short-term investments	-	-	352,554	37,706
Proceeds on disposal of long-term investment	-	1,000,000	-	1,000,000
Additions to mining assets	(5,114,094)	(346,686)	(12,575,539)	(919,461)
Disposal of interest in a subsidiary (note 6)	-	-	300,000	-
Additions to deferred charges	(1,185,255)	(582,673)	(2,568,637)	(1,164,936)
Additions to fixed assets	(72,999)	(12,223)	(78,514)	(32,070)
	(6,372,347)	58,418	(14,570,136)	(1,078,761)
Change in cash and cash equivalents during the period	(6,268,612)	(660,337)	(15,185,743)	233,470
Effect of foreign exchange rate changes on cash and cash equivalents	43,105	-	(21,627)	-
Cash and cash equivalents – Beginning of period	8,439,403	7,273,230	17,421,266	6,379,423
Cash and cash equivalents – End of period	2,213,896	6,612,893	2,213,896	6,612,893

Supplemental schedule of non-cash items

	Three-month period ended		Six-month period ended	
	June 30		June 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
Increase in advances payable allocated to mining assets	4,478	3,948	8,869	7,776
Unrealized foreign exchange gain (loss) allocated to advances payable	(115,838)	425,898	(188,565)	736,620
Amortization of deferred charges allocated to mining assets	38,345	-	69,402	-
Amortization of fixed assets allocated to stocks	33,176	(93,695)	(17,112)	-
Amortization of fixed assets allocated to mining assets	1,698	2,955	3,396	6,820

Supplemental information

Interests paid during the period	310,611	462,333	525,278	677,061
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SEMAFO inc.

Notes to Consolidated Financial Statements June 30, 2004 and December 31, 2003

(unaudited, expressed in U.S. dollars)

1 Basis of presentation

These consolidated interim 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, 2003.

The same accounting policies as disclosed in the audited financial statements included in the Company's latest annual report have been used with the exception to the changes in accounting policies described in note 3.

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 periods. 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 consolidated financial statements

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 and development. These activities are conducted in West Africa and include a gold mine in operation in Guinea since April 2002, as well as a project in Niger currently under construction. The start-up of operations is planned in the third quarter of 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.

3. Changes in accounting policies

Asset Retirement Obligations

As at January 1st, 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 quarter, estimated future reclamation and closure costs, relating to active mines, were accrued and charged to expenses over the expected operating life of the mines, using the units-of-production method based on the tonnage of ore and waste mined

SEMAFO inc.

Notes to Consolidated Financial Statements June 30, 2004 and December 31, 2003

(unaudited, expressed in U.S. dollars)

3. Changes in accounting policies (continued)

Asset Retirement Obligations (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. In way of compensation, the total discounted estimated cash flow is capitalized to the fixed assets, 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, depreciation 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 periods were restated following this change in accounting policy. The table below presents the restatements:

	As at December 31, 2003	
	\$	
Consolidated Balance Sheet		
Increase of fixed assets		143,779
Increase of asset retirement obligations		68,305
Decrease in deficit		75,474
	Three-month period	Six-month period ended
	ended	June 30, 2004
	June 30, 2004	June 30, 2004
	\$	\$
Consolidated Statement of Operations		
Decrease in operating expenses	55,387	106,727
Increase in amortization expenses	44,779	89,558
Accretion expense of asset retirement obligations	4,804	9,608
	<hr/>	<hr/>
Decrease in net loss	5,804	7,561
 Reconciliation of the total liability for asset retirement obligations		
		As at December 31, 2003
Balance at December 31, 2003 as previously reported		409,718
Impact of change in accounting policies		68,305
		<hr/>
Restated balance at December 31, 2003		478,023
		<hr/>

SEMAFO inc.

Notes to Consolidated Financial Statements June 30, 2004 and December 31, 2003

(unaudited, expressed in U.S. dollars)

3. Changes in accounting policies (continued)

Accounting Guidelines 13 «Hedging Relationships»

On January 1st 2004, the company adopted the CICA Accounting Guideline 13, Hedging Relationships. This guideline establishes conditions for when hedge accounting may be applied. More precisely, it presents the views of the Accounting Standards Board on the identification, designation, documentation and effectiveness of hedging relationships, for the purpose of applying hedge accounting. Our gold sales contracts are not included in the scope of these pronouncements because the contracts are expected to be settled through physical delivery.

4. Summary of significant accounting policies

Fixed assets

i) Property acquisition costs, deferred exploration and development costs

When a project is brought into commercial production, property acquisition costs, deferred exploration and development costs are transferred to the various fixed 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.

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, depreciation 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. Depreciation is provided for using the declining balance method at a rate of 30%. The depreciation 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 charges 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) Asset retirement obligations

The asset retirement obligations are recorded at the discounted estimated cash flows. Amortization is calculated 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, depreciation is based on their anticipated useful life.

SEMAFO inc.

Notes to Consolidated Financial Statements

June 30, 2004 and December 31, 2003

(unaudited, expressed in U.S. dollars)

4. Summary of significant accounting policies (continued)

vi) Property 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 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.

Mining assets

Mining assets are comprised of mining rights 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, related deferred 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 fixed assets.

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.

SEMAFO inc.

Notes to Consolidated Financial Statements June 30, 2004 and December 31, 2003

(unaudited, expressed in U.S. dollars)

5. Stocks

	As at June 30, 2004 \$	As at December 31, 2003 \$
Gold ingots	546,591	352,312
Gold in circuit	322,726	237,761
Stockpiles	1,030,665	1,234,988
Supplies and spare parts	1,934,728	984,605
	<u>3,834,710</u>	<u>2,809,666</u>

6. Other short-term assets

	As at June 30, 2004 \$	As at December 31, 2003 \$
Amount receivable on disposal of investment in a subsidiaries	4,352,701	2,000,000
Prepaid expenses	1,061,519	897,562
	<u>5,414,220</u>	<u>2,897,562</u>

Amount receivable on disposal of investment in a subsidiary

Segala Mining Corporation S.A.

On July 24, 2002 the company sold its 77% interest in Segala Mining Corporation S.A. ("Segala") for a global consideration valued at \$9,000,000. At closing, the company received \$1,000,000 in cash, 2,860,000 common shares of Nevsun Resources Ltd. ("Nevsun") valued at \$1,978,046 and a non-interest bearing debenture valued at \$6,000,000. The \$2,978,046 initial compensation was showed as a decrease in the book value for its participation in Segala (note7), which was initially amounted to \$7,150,464 at the closing date. The balance of the provision proceeds, showed as a debenture, was not accounted for considering the uncertainty of its perception and measurement. At each of the transaction anniversary dates from 2003 to 2005, the company would receive payment of \$1,000,000 in cash and the equivalent of \$1,000,000 in Nevsun shares, at a price equal to the average closing price of the last twenty trading days prior to the payment, less 15%. The issuance of these shares would be made at a minimum price of CA\$1.00 per share in 2003, CA\$1.25 per share in 2004 and CA\$1.50 per share in 2005. The rights to the Segala property remain in guarantee until receipt of the complete payment.

In 2003, the company received \$1,000,000 in cash and 442,781 shares of Nevsun valued at \$1,202,718 that were decreased on the book value of its participation in Segala. At the end of 2003, Nevsun completed a private placement of a substantial amount, which will be used, among others, to develop the Segala property. In addition, the fair market value of Nevsun's shares increased considerably during the year 2003. These new facts reduce the uncertainty of recovery and value of the amount receivable from Nevsun in 2004. This compensation of \$2,000,000 has been accounted for in 2003 as a short-term amount receivable, and a gain on disposal of interest in a subsidiary of \$30,300 has been recorded. Nevertheless, taking in consideration the uncertainty of recovery and value of the amount of \$2,000,000 receivable from Nevsun in 2005 the company did not account for this compensation.

SEMAFO inc.

Notes to Consolidated Financial Statements June 30, 2004 and December 31, 2003

(unaudited, expressed in U.S. dollars)

6. Other short-term assets (continued)

In July 2004, the company signed an agreement with Nevsun (note 11) according to which the company received 1,420,000 shares of Nevsun. Those shares replace the \$2,000,000 payments respectively planned for July 2004 and July 2005 therefore reducing the uncertainty of recovery and value of the amount receivable in 2005. The total consideration valued at \$3,869,210 was therefore accounted for as an amount receivable as at June 30, 2004.

Semafo Ghana inc.

In February 2004, the company sold its interests in Semafo Ghana Ltd., owner of the EBI/Teleku property, for a consideration valued at \$5,454,058. The consideration represents 4,000,000 common shares of Adamus Resources Ltd issued upon closing and valued at \$4,041,312 and cash payments of \$1,500,000, of which \$300,000 were received on closing, and the remaining amount will be paid over the next two years. The discounted value of the cash portion has been established at \$1,412,746.

Since the carrying value of the company's interest in Semafo Ghana Ltd is \$1, the company realized a gain of \$5,454,057.

As at June 30, 2004, the discounted value of the cash payments to be received is \$939,614. From this amount, a total of \$483,491 is presented in short-term assets and \$456,123 is presented in the other long-term assets. The changes in the discounted value correspond to the cash payment of \$500,000 received in 2004 and the accretion of the amount receivable on disposal of investment in a subsidiary.

7 Fixed assets

	As at June 30, 2004 \$	As at December 31, 2003 \$
Property acquisition costs, deferred exploration and development costs	20,313,761	19,358,191
Buildings and equipment related to mining production	6,047,837	5,531,111
Rolling stock, communication and computer equipment	2,462,273	2,336,977
Deferred stripping costs	1,307,879	366,871
Asset retirement obligations	567,490	458,807
	<hr/> 30,699,240	<hr/> 28,051,957
Accumulated depreciation	(11,067,217)	(9,120,421)
	<hr/> 19,632,023	<hr/> 18,931,536

SEMAFO inc.

Notes to Consolidated Financial Statements June 30, 2004 and December 31, 2003

(unaudited, expressed in U.S. dollars)

8 Other long-term assets

	As at June 30, 2004 \$	As at December 31, 2003 \$
Deferred charges	692,118	683,006
Long-term investments	4,424,605	383,293
Amount receivable on disposal of investment in a subsidiary	456,123	-
	<u>5,572,846</u>	<u>1,066,299</u>

9 Long-term debt

In 2003, the company obtained loans totalling \$25,000,000 for the construction of the Samira Hill project. During the second quarter of 2004, the company obtained a loan of \$1,615,000 for the financing of the Samira Hill power plant. As at June 30, 2004, a total of \$13,735,000 was drawn under these loans.

In February 2004, the company made a prepayment of \$5,000,000 on its long-term debt bearing a 12 % interest rate.

	As at June 30, 2004 \$	As at December 31, 2003 \$
Bank loan of \$1,615,000 bearing interest at 3.75% over LIBOR payable quarterly, principal repayable in thirteen equal quarterly instalments starting on April 15, 2005, secured by Semafo inc.	1,235,000	-
Bank loan bearing a 12% interest rate payable semi-annually, principal repayable in one instalment on December 31, 2005, secured by Managem S.A. The loan agreement stipulates that should Managem S.A. no longer retain control over the company, the loan becomes repayable on demand.	2,000,000	7,000,000
Bank loan of \$7,500,000, bearing interest at 1.6% over LIBOR payable semi-annually, principal repayable in eight equal semi-annual instalments starting on April 30, 2005, secured by Managem S.A.	7,500,000	5,220,000
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, secured by Managem S.A.	5,000,000	3,480,000
Bank loan bearing a 10.5% interest rate payable semi-annually, principal repayable in one instalment on December 31, 2005, secured by Managem S.A., Semafo Barbados Limited and Etruscan Resources Incorporated. The loan agreement also stipulates that if Managem S.A. no longer retains control of the company, the loan becomes repayable on demand	4,000,000	4,000,000
	<u>19,735,000</u>	<u>19,700,000</u>

SEMAFO inc.

Notes to Consolidated Financial Statements June 30, 2004 and December 31, 2003

(unaudited, expressed in U.S. dollars)

9. Long-term debt (continued)

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

	\$
2005	9,412,290
2006	3,504,084
2007	3,504,084
2008	3,314,542
2009	-

10 Asset retirement obligations

The Company's operation is governed by a mining convention regulating the protection of the environment. The Company conducts its operations in order to protect the public health and the environment. The Company will implement progressive measures for rehabilitation work during the operation, 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 costs estimations. Those estimates are subject to changes following modifications to laws and regulations or as new information become available.

The table below presents the evolution of the assets retirement obligations for the periods

	As at June 30 2004 \$	As at December 31, 2003 \$
Balance - beginning of period	478,023	240,194
Increase due to accretion expense	19,120	19,216
New liability	108,683	218,613
Balance - end of period	<u>605,826</u>	<u>478,023</u>

The estimated undiscounted cash flow required to settle the asset retirement obligations is \$1,377,636. Those payments are expected during the years 2004 to 2009. An 8% discount rate was used to evaluate those obligations.

11 Subsequent event

On July 23, 2004 the Company signed an agreement with Nevsun according to which the company received 1,420,000 common shares of Nevsun to settle the sale price for the Segala Mining Corporation S.A. which took place in July 2002. The issuance of those shares replaces the final payment of the sale price of \$4,000,000 that was supposed to be paid in two equal instalments in July 2004 and July 2005. Upon closing, the shares received were valued at \$3,869,210 (CA \$5,112,000).

Investor Information

Requests for copies of the Annual Report, quarterly reports and other Company Information may be addressed to:

Benoit La Salle

Chairman of the Board and Chief Executive Officer
SEMAFO inc.
750 Marcel-Laurin Blvd, Suite 375
Saint-Laurent, Quebec H4M 2M4

Telephone: (514) 744-4408 – Fax (514) 744-2291

E-mail: info@semafo.com

Web site: <http://www.semafo.com>

Transfert Agent

National Bank Trust inc.

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