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Quarterly report / **Nine-month period ended September 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 September 30, 2004 to those of the comparative periods. This MD&A, prepared as of November 12, 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 September 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.

## **THIRD QUARTER – THREE-MONTH ENDED SEPTEMBER 30, 2004**

### REVIEW OF MINING OPERATIONS

Three-month periods ended September 30	2004	2003
<b>Production update</b>		
Tonnage mined (tonnes)	163,234	76,589
Mined grade (g/tonne)	2.84	3.92
Ore processed (tonnes)	150,583	95,072
Head-grade (g/tonne)	2.89	3.73
Recovery (%)	94	84
Gold production (ounces)	13,190	9,862
<b>Cash Operating Cost per ounce – Production basis (\$/ounce)</b>		
	<b>301</b>	<b>240</b>

During the third quarter of 2004, we mined a total of 163,234 tonnes of ore at an average grade of 2.84 g/t compared to 76,589 tonnes at an average grade of 3.92 g/t during the same period in 2003. We also mined 1,058,920 tonnes of waste material during the third quarter of 2004 compared to 932,467 tonnes during the third quarter of 2003. The Gobélé D pit, which presents an average grade of 3.73 g/t (including sulphides), was the main extraction zone in 2004. During the third quarter of 2004, we have extracted 151,783 tonnes of ore from this pit and 810,145 tonnes of waste material.

We processed 150,583 tonnes of ore at our Kiniero mine, at an average grade of 2.89 g/t during the third quarter of 2004 compared to 95,072 tonnes of ore at an average grade of 3.73 g/t during the third quarter of 2003. This decrease in grade was offset by the 58% increase in processed tonnage, following the improvements at the plant combined with the high friability of the ore from the Gobélé D pit.

The recovery rate significantly improved from 84% during the third quarter of 2003 to 94% 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 exceeded 92%.

During the third quarter of 2004, we produced 13,190 ounces of gold at a cash operating cost of \$301 per ounce compared to a production of 9,862 ounces at a cash operating cost of \$240 per ounce during the same period in 2003. The increase in cash operating cost is mainly due to the processing of ore at a lower grade in 2004 compared to 2003. In addition, the increased price of fuel in Guinea as of August 2004, resulted in an increase in production costs of more than \$25 per ounce.

## STATEMENTS OF OPERATIONS

### Significant Financial Data

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

Three-month periods ended September 30	2004	2003
<b>Statements of operation and cash flows (\$)</b>		
Gold sales	4,981,870	3,018,282
Operating loss	(3,513,223)	(2,799,725)
Net income (loss)	(3,642,858)	(2,968,645)
Net income (loss) per share		
Basic	(0.04)	(0.04)
Diluted	(0.04)	(0.04)
Operating cash flow*	(686,272)	160,233
<b>Mining operation</b>		
Gold sales (ounces)	13,727	10,296
Average selling price (\$/ounce)	363	293
Total cash cost (\$/ounce sold)**	328	258

\* 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 September 30, 2004, Semafo presents a net loss of \$3,642,858 (\$0.04 per share) compared to a net loss of \$2,968,645 (\$0.04 per share) for the same period in 2003. This variation is mainly explained by the unrealized loss on the forward sales contract which increased from \$606,464 in 2003 to \$1,623,501 in 2004.

### Gold sales

Gold sales for the third quarter of 2004 totalled \$ 4,981,870 compared to \$3,018,282 in 2003. We sold 13,727 ounces of gold at an average price of \$363 per ounce in 2004 compared to 10,296 ounces of gold at an average price of \$293 per ounce during the third quarter of 2003. In 2004, only 40% of the production was delivered against the forward sales contracts at a price of \$296 per ounce, explaining the increase of the average selling price in 2004 compared to 2003.

### Operating expenses

Operating expenses for the quarter ended September 30, 2004, totalled \$ 4,658,105 compared to \$2,752,249 for the same period in 2003. These operating expenses represent the production costs of 13,727 ounces of gold at a total cash cost of \$328 per ounce in 2004, compared to a production of 10,296 ounces of gold at a total cash cost of \$258 per ounce during the third quarter of 2003. As mentioned earlier, this increase in operating costs is mainly due to the processing of ore at a lower grade in 2004 than in 2003 and to the increased price of fuel in Guinea as of August 2004.

## Reconciliation of total cash cost per ounce to financial statements

Three-month periods ended September 30	2004	2003
	\$	\$
Operating costs per financial statements	4,658,105	2,752,249
Stock depreciation	153,773	(100,606)
Operating costs for per ounce calculation	4,504,332	2,651,643
Ounces sold	13,727	10,296
Total cash costs per ounce sold	328	258

The total cash cost is calculated using the Gold Institute Guidelines

### Unrealized loss on deferred forward contracts (see also off-balance sheet transactions)

#### Kiniero

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 contracts 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 \$421,019 for the third quarter of 2004.

The anticipated closing of forward sales positions due in July and August 2004, for an amount of 3,127 ounces, lead to an unrealized gain of \$329,532 during the second quarter of 2004 and to an unrealized loss for the same amount during the third quarter of 2004.

The postponement of forward sales positions for Kiniero therefore lead to an unrealized loss of \$750,551 during the third quarter of 2004.

#### Samira Hill

The forward sales program concluded in 2003 required the delivery during the third quarter of 2004, of 19,500 ounces at a price of \$360 per ounce. Since the Samira Hill project was still at a pre-operation stage, we postponed those positions to the fourth quarter of 2004 and to the first quarter of 2005. Consequently, the unrealized loss on the forward sales contracts for Samira Hill amounts to \$872 950 for the third quarter 2004.

### 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 and development expenditures, 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 \$1,209,732 for the three-month period ended September 30, 2004 compared to an amortization expenses of \$1,226,557 for the same period in 2003. The amortization expense per ounce is \$84 in 2004 compared to \$114 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 September 30	2004	2003
	\$	\$
<b>Amortization of fixed assets per financial statements</b>	<b>1,209,732</b>	<b>1,226,557</b>
<b>Amortization of asset retirement obligations</b>	<b>56,789</b>	<b>44,779</b>
<b>Amortization of fixed assets not at operating mine site</b>	<b>6,196</b>	<b>8,000</b>
<b>Amortization of fixed assets for per ounce calculation</b>	<b>1,146,747</b>	<b>1,173,778</b>
<b>Ounces sold</b>	<b>13,727</b>	<b>10,296</b>
<b>Amortization per ounce sold</b>	<b>84</b>	<b>114</b>

### Administration

Administration expenses went from \$378,065 during the third quarter of 2003, to \$615,728 for the same period in 2004. This rise is mainly due to an increase in activities related to the start-up of the Samira Hill mine.

### Write-off of mining assets

During the third quarter of 2004, we wrote-off mining assets for \$378,467, representing expenditures related to the Hana Lobo property in Ivory Coast. During the same period in 2003, we wrote-off mining assets for \$849,868, representing the costs related to the Mount Kakoulima property in Guinea.

### Interests and other income

Interests and other income increased from \$47,369 for the third quarter of 2003 to \$71,619 for the same period in 2004. These other income represent the sharing of administrative expenses with other companies. This sharing is non-recurring and subject to variation.

### Interests on the long-term debt

The interests on the long-term debt decreased from \$322,001 for the quarter ended September 30, 2003 to \$169,699 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. No other reimbursement is expected during 2004.

The interests on the long-term debts used to finance the Samira Hill construction are presently capitalized in the mining assets. At the production stage, those interests will be accounted for in the consolidated statements.

### Foreign exchange loss

During the three-month period ended September 30, 2004, we recorded a foreign exchange loss of \$576,504 compared to a foreign exchange gain of \$55,952 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 third quarter of 2004, the appreciation of the Canadian dollar compared to the US dollar generated a foreign exchange loss of \$307,302 on this advance payable. In 2003, depreciation of the Canadian dollar compared to the US dollar generated a foreign exchange gain of \$40,553 on this same advance. This advance is non-interest bearing and has no specific terms of repayment.

Exchange rates are as follows:

SCA/\$US	2004	2003
<b>June 30 (closing)</b>	<b>1.3404</b>	<b>1.3475</b>
<b>September 30 (closing)</b>	<b>1.2639</b>	<b>1.3536</b>
<b>Third quarter (average)</b>	<b>1.3091</b>	<b>1.3794</b>

## CASH FLOW STATEMENTS

### Operating

Operating activities, before net changes in non-cash working capital items, required a cash flow of \$686,272 for the quarter ended September 30, 2004, compared to \$160,233 for the same period in 2003. This variance is mainly due to the increase in administrative expenses, as discussed earlier.

Working capital items had a positive impact on liquidities \$2,304,124 during the third quarter of 2004 compared to \$975,702 in 2003.

### Financing

During this quarter, we received \$7,000,000 on a long-term debt of \$12,500,000 for the construction of the Samira Hill mine.

### Investing

During the third quarter of 2004, liquidities of \$6,432,129 were invested in mining assets compared to \$4,182,464 for the same period in 2003.

During the third quarter 2004, we invested in Niger more than \$5,500,000 for the construction of the Samira Hill mine. For the same period, in Burkina Faso, we invested liquidities of approximately \$579,000 in the feasibility study of the Mana project and more than \$200,000 in exploration work on this property.

Investments of \$118,342 in fixed assets were realized during the third quarter of 2004, mainly at Kiniero.

Total liquidities of \$1,764,603 were generated during the third quarter of 2004, whereas operations for the third quarter of 2003 required liquidities of \$2,090,630.

## **THIRD QUARTER –NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2004**

### REVIEW OF MINING OPERATIONS

<b>Nine-month periods ended September 30</b>	<b>2004</b>	<b>2003</b>
<b>Production update</b>		
Tonnage mined (tonnes)	<b>367,017</b>	316,814
Mined grade (g/tonne)	<b>3.13</b>	4.26
Ore processed (tonnes)	<b>370,470</b>	324,160
Head-grade (g/tonne)	<b>3.20</b>	4.03
Recovery (%)	<b>93</b>	87
Gold production (ounces)	<b>35,980</b>	37,279
<b>Cash Operating Cost per ounce – Production basis (\$/ounce)</b>	<b>281</b>	213

During the nine-month period ended September 30, 2004, we mined a total of 367,017 tonnes of ore at an average grade of 3.13 g/t compared to 316,814 tonnes at an average grade of 4.26 g/t during the same period in 2003. We also mined 3,797,233 tonnes of waste material in 2004, compared to 2,826,794 tonnes during the first nine months of 2003. This 26% decrease in grade is mainly due to the mining activities performed in the Gobélé D pit, which presents an average grade of 3.73 g/t.

We processed 370,470 tonnes of ore at our Kiniero mine, at an average grade of 3.20 g/t during the first nine month of 2004 compared to 324,160 tonnes of ore at an average grade of 4.03 g/t during the same period last year. This increase in tonnage processed in 2004 had for main objective to compensate for the processing of lower grade ore.

The recovery rate significantly improved coming from 87% during the period ended September 30, 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 started operating during the third quarter of 2003.

During the nine-month period ended September 30, 2004, we produced 35,980 ounces of gold at a cash operating cost of \$281 per ounce compared to a production of 37,279 ounces at a cash operating costs of \$213 per ounce for the same period in 2003 representing a 3.5% decrease in production and a 32% increase of cash operating costs. The increased fuel price in 2004, combined with the processing of lower grade ore explains these important fluctuations.

## STATEMENTS OF OPERATIONS

### Significant Financial Data

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

Nine-month periods ended September 30	2004	2003
<b>Statements of operation and cash flows (\$)</b>		
Gold sales	12,175,526	12,088,611
Operating loss	(5,833,831)	(3,618,854)
Net income (loss)	1,440,304	(4,583,935)
Net income (loss) per share		
Basic	0.02	(0.06)
Diluted	0.02	(0.06)
Operating cash flow*	(1,138,288)	1,799,942
	<b>As at September 30, 2004</b>	<b>As at December 31, 2003</b>
<b>Balance sheet (\$)</b>		
Cash and cash equivalents	4,005,526	17,421,266
Total assets	108,982,230	94,931,556
Total long-term debt	26,735,000	19,700,000
Shareholders' Equity	55,122,349	53,682,045
	<b>Nine-month period ended September 30, 2004</b>	<b>Nine-month period ended September 30, 2003</b>
<b>Mining operation</b>		
Gold sales (ounces)	36,234	37,364
Average selling price (\$/ounce)	336	324
Total cash cost (\$/ounce sold)**	308	234

\* 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 nine-month period ended September 30, 2004, Semafo presents a net income of \$1,440,304 (\$0.02 per share) compared to a net loss of \$4,583,935 (\$0.06 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 previously explained.

### Gold sales

For the nine-month period ended September 30, 2004, gold sales totalled \$12,175,526 compared to \$12,088,611 in 2003. In 2004, we sold 36,234 ounces of gold at an average price of \$336 per ounce compared to 37,364 ounces of gold during the same period in 2003, at an average price of \$324 per ounce.

### Operating expenses

Operating expenses for the nine-month period ended September 30, 2004, totalled \$11,197,117 compared to \$9,007,507 for the same period in 2003. These operating expenses represent the production of 36,234 ounces of gold at a total cash cost of \$308 per ounce in 2004, compared to production of 37,364 ounces of gold at a total cash cost of \$234 per ounce in 2003. This increase in costs is mainly due to the processing of ore at a lower grade, to the higher stripping ratio in 2004 compared to 2003 and to the increased price of fuel.

## Reconciliation of total cash cost per ounce to financial statements

<b>Nine-month period ended September 30</b>	<b>2004</b>	<b>2003</b>
	\$	\$
<b>Operating costs per financial statements</b>	<b>11,197,117</b>	<b>9,007,507</b>
<b>Stock depreciation</b>	<b>48,566</b>	<b>(263,891)</b>
<b>Operating costs for per ounce calculation</b>	<b>11,148,551</b>	<b>8,743,616</b>
<b>Ounces sold</b>	<b>36,234</b>	<b>37,364</b>
<b>Total cash costs per ounce sold</b>	<b>308</b>	<b>234</b>

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

## Unrealized loss on deferred forward contracts (see also off-balance sheet transactions)

### Kiniero

During the nine-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 \$897,340.

### Samira Hill

As previously discussed, the forward sales program for Samira Hill required the delivery, during the third quarter of 2004, of 19,500 ounces at a price of \$360 per ounce. The postponement of those positions to the fourth quarter of 2004 and to the first quarter of 2005 lead to an unrealized loss on forward sales contracts for an amount of \$872,950.

## Amortization of fixed assets

The amortization expenses amounted to \$3,149,993 for the nine-month period ended September 30, 2004 compared to an amortization expenses of \$4,171,822 for the same period in 2003. The amortization expense per ounce is \$81 in 2004 compared to \$107 in 2003. As previously discussed, 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.

## Reconciliation of amortization of fixed assets per ounce to financial statements

<b>Nine-month periods ended September 30</b>	<b>2004</b>	<b>2003</b>
	\$	\$
<b>Amortization of fixed assets per financial statements</b>	<b>3,149,993</b>	<b>4,171,822</b>
<b>Amortization of asset retirement obligations</b>	<b>179,424</b>	<b>134,337</b>
<b>Amortization of fixed assets not at operating mine site</b>	<b>18,588</b>	<b>24,000</b>
<b>Amortization of fixed assets for per ounce calculation</b>	<b>2,951,981</b>	<b>4,013,485</b>
<b>Ounces sold</b>	<b>36,234</b>	<b>37,364</b>
<b>Amortization per ounce sold</b>	<b>81</b>	<b>107</b>

## Administration

Administration expenses increased from \$1,057,392 during the nine-month period ended September 30, 2003, to \$1,484,810 for the same period in 2004. As previously explained, this increase is mainly due to an increase in activities relating to the start-up of the Samira Hill mine in Niger, and to the increase in consulting fees.

## Interests and other income

Interests and other income decreased, from \$207,664 for the nine-month period ended September 30, 2003 to \$121,411 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 in 2003 and to the decrease of other income.

### **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 \$5,454,058. This consideration represents 4,000,000 common shares of Adamus Ressources Limited 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 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.

During the third quarter of 2004, we signed an agreement with Nevsun Resources Ltd ('Nevsun') according to which we received 1,420,000 Nevsun shares to settle the sale price for Segala which took place in July 2002. The issuance of those shares replaces the payment of the balance of sale in the amount of \$4,000,000, which should have been done in two equal instalments in July 2004 and July 2005. Upon closing, the shares were valued at \$3,869,210, leading to 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 \$995,561 for the nine-month period ended September 30, 2003 to \$558,999 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 nine-month period ended September 30, 2004, we recorded a foreign exchange loss of \$307,636 compared to a foreign exchange loss of \$342,972 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:

SCA/\$US	2004	2003	2002
December 31 (closing)	-	1.2924	1.5769
September 30 (closing)	1.2639	1.3536	
Nine-month period (average)	1.3327	1.4294	

## **CASH FLOW STATEMENTS**

### **Operating**

Operating activities, before net changes in non-cash working capital items, required liquidities totalling \$1,138,288 during the nine-month period ended September 30, 2004, compared to a positive cash flow of \$1,799,942 for the same period in 2003. This change is mainly due to the increase in operating costs at Kiniero.

Non-cash working capital items had a positive impact on our liquidities of \$2,105,533 during the nine-month period ended September 30, 2004 compared to \$1,327,758 in 2003

### **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 \$12,035,000 on the long-term debt related to the Samira Hill project. As at September 30, 2004, a long-term debt totalling \$5,880,000 was still not disbursed

### **Investing**

During the first nine months of 2004, liquidities of \$19,007,668 were invested in mining assets compared to \$5,101,925 for the same period in 2003. Almost all investments are related to the construction of the Samira Hill mine in Niger.

During the nine-month period ended September 30, 2004, investments of approximately \$17,000,000 were realized for the construction of the Samira Hill. As at September 30, 2004, a total of approximately \$27,000,000 was invested in the construction of Samira Hill. In 2000 and 2001, we started the first construction phase of the Samira Hill project, spending approximately \$4,000,000.

In Burkina Faso, liquidities of approximately \$800,000 were invested in the feasibility study of the Mana project for a total of approximately \$1,200,000. As at September 30 2004, we have invested \$900,000 on this property out of an exploration budget of more than \$1,000,000.

Investments in fixed assets of \$2,686,979 were realized in 2004, mainly at Kiniero. These investments mainly represent expenditures relating to the additional milling unit, stripping work on the Gobélé D pit and exploration expenditure at Kiniero.

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

Total liquidities of \$13,421,140 were required for the operations during the nine-month period ended September 30, 2004, whereas operations generated liquidities of \$1,857,160 during the same period in 2003.

## BALANCE SHEETS

The company's total assets amounted to \$108,982,230 as at September 30, 2004, compared to \$94,931,556 as at December 31, 2003. This increase of approximately \$14,000,000 is mainly attributable to the increase of the mining assets and of the other long-term assets. As at September 30, 2004, cash and cash equivalents amounted to \$4,005,526 compared to \$17,421,266 as at December 31, 2003.

Mining assets went from \$50,748,954 as at December 31, 2003 to \$69,507,016 as at September 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 \$9,710,629 as at September 30, 2004. Those other assets mainly represent our investment in Adamus and Nevsun received following the transactions previously discussed.

Stocks increased by \$2,001,643 during the first nine-month of 2004. This increase is mainly due to the built-up of stocks of reagents and of the stockpiles for the Samira Hill mine.

The long-term debt amounted to \$26,735,000 as at September 30, 2004, compared to \$19,700,000 as at December 31, 2003, whereas total liabilities amounted to \$53,859,881 as at September 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 September 30, 2004, we had commitments to deliver 400,594 ounces of gold over the next six years at an average sale price currently valued at \$347 per ounce.

		2004	2005	2006	2007	2008	2009	Total
<b>Adjustable forwards sales</b>								
Ounces	(in thousand)	16	38	29	26	24	17	150
Average price	(\$ per ounce)	378	381	360	360	360	360	367
<b>Fixed forwards sales</b>								
Ounces	(in thousand)	24	69	60	57	24	17	251
Average price	(\$ per ounce)	341	331	327	325	360	360	335
<b>Total forwards sales</b>								
<b>Ounces</b>	<b>(in thousand)</b>	<b>40</b>	<b>107</b>	<b>89</b>	<b>82</b>	<b>48</b>	<b>35</b>	<b>401</b>
<b>Average price</b>	<b>(\$ per ounce)</b>	<b>355</b>	<b>349</b>	<b>338</b>	<b>336</b>	<b>360</b>	<b>360</b>	<b>347</b>

## **Kiniero**

During the third quarter of 2004, we closed forward sales positions for 4,916 ounces at an average price of \$296. During the second quarter of 2004, we proceeded to the anticipated closing of positions for July and August 2004, for a quantity of 3,127 ounces.

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 September 30, 2004, to deliver 100,594 ounces of gold at a price of \$296 per ounce, over the years 2004 to 2007.

## **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.

During the third quarter of 2004, we adjusted the price of our positions for the third quarter of 2005, fixing the price of 8,625 ounces at \$390 per ounce. Consequently, as at September 30, 2004, the adjustable forward sales, for which the price was not yet fixed, totalled 104,625 ounces.

As at September 30, 2004, we have therefore commitments for the delivery of 300,000 ounces of gold at an average price of \$364 per ounce, over the years 2004 to 2009.

Under the financing agreement, we were committed to conclude forward sales contracts for an additional 87,000 ounces. As agreed by both parties, this commitment was cancelled in 2004.

## **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.

According to this strategy, during the third quarter of 2004, we finalized the construction of the Samira Hill mine and successfully proceeded to its start-up. The first gold pour took place in September 2004 with a production of approximately 500 ounces of gold. The first full month of operation at Samira Hill is very encouraging, with plant availability of 93%, a throughput representing 95% of the target throughput for oxide ore and an average head-grade of 2.37 g/t. Our initial production objective of 45,000 ounces in 2004 was based on a four-month production period. Considering that the start-up of the plant at the end of September 2004, we are reviewing our production objective for Samira Hill to 30,000 ounces for the year 2004.

Presently, at Kiniero, the mill is experiencing mechanical problems at the shaft of the ball mill, thus reducing its milling capacity by 50%. The causes have all been identified and all necessary measures were taken in order to rectify this situation. In order to minimize the negative impact toward the decrease in capacity, a great selectivity will be done at the geological level to compensate for some of the missing ounces. Considering these elements, production objectives are revised to 43,000 ounces for the year 2004 at Kiniero.

### **ACHIEVEMENTS FOR THE THIRD QUARTER OF 2004**

- ✦ **Start-up of the Samira Hill mine, in Niger in September 2004 and first gold pour on September 25, 2004**
- ✦ **Record throughput of more than 56,000 tonnes in August 2004, for a total of more than 150,000 tonnes during the third quarter of 2004 at Kiniero**
- ✦ **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 43,000 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 30,000 ounces in 2004**
- ✦ **Complete the certification of the mineral resources and the feasibility study of the Mana project**
- ✦ **Initiate negotiation of the mining convention and the financing for the Mana project**

## **Additional Information and Continuous Disclosure**

This MD&A has been prepared as of November 12, 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](http://www.sedar.com)).

# SEMAFO inc.

## Consolidated Balance Sheets

As at September 30, 2004 and December 31, 2003

(unaudited, expressed in U.S. dollars)

	As at September 30, 2004 \$	As at December 31, 2003 \$ (note 3)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,005,526	17,421,266
Short-term investments	-	352,554
Accounts receivable	792,400	703,719
Stocks (note 5)	4,811,309	2,809,666
Other assets (note 6)	1,524,929	2,897,562
	<u>11,134,164</u>	<u>24,184,767</u>
<b>Fixed assets (note 7)</b>	18,630,421	18,931,536
<b>Mining assets</b>	69,507,016	50,748,954
<b>Other assets (note 8)</b>	9,710,629	1,066,299
	<u>108,982,230</u>	<u>94,931,556</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	13,693,260	9,551,178
<b>Long-term debt (note 9)</b>	26,735,000	19,700,000
<b>Deferred gains</b>	3,607,232	1,836,942
<b>Advances payable</b>	8,435,535	8,303,312
<b>Asset retirement obligations (note 10)</b>	664,272	478,023
<b>Minority interest</b>	724,582	1,380,056
	<u>53,859,881</u>	<u>41,249,511</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b>	89,353,279	89,353,279
<b>Deficit</b>	(34,230,930)	(35,671,234)
	<u>565,122,349</u>	<u>53,682,045</u>
	<u>108,982,230</u>	<u>94,931,556</u>

**SEMAFO inc.**

## Consolidated Deficit

For the periods ended September 30 2004 and 2003

(unaudited, expressed in U.S. dollars)

	Three-month period ended September 30		Nine-month period ended September 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
		(note 3)		(note 3)
<b>Deficit – Beginning of period – as previously reported</b>	30,588,072	(28,297,736)	(35,746,708)	(26,674,885)
Change in accounting policies (note 3)	-	54,244	75,474	46,683
Restated balance – beginning of period	30,588,072	(28,243,492)	(35,671,234)	(26,628,202)
Net income (net loss) for the period	(3,642,858)	(2,968,645)	1,440,304	(4,583,935)
<b>Deficit at the end of the period</b>	<b>(34,230,930)</b>	<b>(31,212,137)</b>	<b>(34,230,930)</b>	<b>(31,212,137)</b>

**SEMAFO inc.**

## Consolidated Statements of Operations

For the periods ended September 30, 2004 and 2003

(unaudited, expressed in U.S. dollars)

	Three-month period ended		Nine-month period ended	
	September 30		September 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
		(note 3)		(note 3)
<b>Gold sales</b>	4,981,870	3,018,282	12,175,526	12,088,611
<b>Expenses</b>				
Operating	4,658,105	2,752,249	11,197,117	9,007,507
Unrealized loss on deferred forward contracts	1,623,501	606,464	1,770,290	606,464
Amortization of fixed assets	1,209,732	1,226,557	3,149,993	4,171,822
Administration	615,728	378,065	1,484,810	1,057,392
Accretion expense of asset retirement obligations (note 10)	9,560			
Write-off of mining assets	378,467	849,868	378,467	849,868
	8,495,093	5,818,007	18,009,357	15,707,465
<b>Operating loss</b>	(3,513,223)	(2,799,725)	(5,833,831)	(3,618,854)
Interest and other income	(71,619)	(47,369)	(121,411)	(207,664)
Accretion of an amount receivable on disposal of investment in a subsidiary (note 6)	(13,750)		(40,618)	-
Gain on disposal of investment in a subsidiary			(7,323,267)	
Interest on long-term debt	169,699	322,001	558,999	995,561
Foreign exchange (gain) loss	576,504	(55,952)	307,636	342,972
<b>Net income (net loss) before minority interest</b>	(4,174,057)	(3,018,405)	784,830	(4,749,723)
Minority interest in a subsidiary's net loss	(531,199)	(49,760)	(655,474)	(165,788)
<b>Net income (net loss) for the period</b>	(3,642,858)	(2,968,645)	1,440,304	(4,583,935)
<b>Net income (net loss) per share</b>				
Basic	(0.04)	(0.04)	0.02	(0.06)
Diluted	(0.04)	(0.04)	0.02	(0.06)

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

(unaudited, expressed in U.S. dollars)

	<b>Three-month period ended</b>		<b>Nine-month period ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
		<b>(note 3)</b>		<b>(note 3)</b>
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net profit (net loss) for the period	(3,642,858)	(2,968,645)	1,440,340	(4,583,935)
Items not affecting cash and cash equivalents				
Unrealized (gain) loss on deferred forward contracts	1,623,501	606,464	1,770,290	606,464
Deferred revenue	-	193,238	-	193,238
Amortization of fixed assets	1,209,732	1,226,557	3,149,993	4,171,822
Accretion expense of asset retirement obligations	9,560	4,804	28,680	14,412
Accretion of an amount receivable on disposal of investment in a subsidiary	(13,750)	-	(40,618)	-
Gain on disposal of investment in a subsidiary	-	-	(7,323,267)	-
Write-off of mining assets	378,467	849,868	378,467	849,868
Unrealized foreign exchange (gain) or loss	280,275	(22,759)	113,337	713,861
Minority interest	(531,199)	(49,760)	(655,474)	(165,788)
	<u>(686,272)</u>	<u>(160,233)</u>	<u>(1,138,288)</u>	<u>1,799,942</u>
Net changes in non-cash working capital items				
Accounts receivable	982,505	(65,476)	(88,681)	271,745
Stocks	(1,019,199)	399,917	(2,011,067)	14,087
Other assets	27,156	234,051	63,199	34,637
Accounts payable and accrued liabilities	2,313,662	407,210	4,142,082	1,007,289
	<u>2,304,124</u>	<u>975,702</u>	<u>2,105,533</u>	<u>1,327,758</u>
	<u>1,617,852</u>	<u>815,469</u>	<u>967,245</u>	<u>3,127,700</u>
<b>Financing activities</b>				
Issuance of capital shares	-	46,088	-	46,088
Long-term debt	7,000,000	-	12,035,000	-
Reimbursement of long-term debt	-	-	(5,000,000)	(1,000,000)
	<u>7,000,000</u>	<u>46,088</u>	<u>7,035,000</u>	<u>(953,912)</u>

**SEMAFO inc.**

Consolidated Statements of Cash Flows ...continued

For the periods ended September 30, 2004 and 2003

(unaudited, expressed in U.S. dollars)

	Three-month period ended		Nine-month period ended	
	September 30		September 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
		(note 3)		(note 3)
<b>Investing activities</b>				
Proceeds on disposal of short-term investments	-	1,202,718	352,554	1,240,424
Proceeds on disposal of long-term investments	-	-	-	1,000,000
Additions to mining assets	(6,432,129)	(4,182,464)	(19,007,668)	(5,101,925)
Disposal of interest in a subsidiary	-	1,000,000	300,000	1,000,000
Additions to fixed assets	(118,342)	(856,864)	(2,686,979)	(2,021,800)
Additions to deferred charges	(302,778)	(115,577)	(381,292)	(147,647)
	(6,853,249)	(2,952,187)	(21,423,385)	(4,030,948)
<b>Change in cash and cash equivalents during the period</b>	1,764,603	(2,090,630)	(13,421,140)	(1,857,160)
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	27,027	-	5,400	-
<b>Cash and cash equivalents – Beginning of period</b>	2,213,896	6,612,893	17,421,266	6,379,423
<b>Cash and cash equivalents – End of period</b>	4,005,526	4,522,263	4,005,526	4,522,263
<b><u>Supplemental schedule of non-cash items</u></b>				
	Three-month period ended		Nine-month period ended	
	September 30		September 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
Increase in advances payable allocated to mining assets	4,617	4,070	13,486	11,846
Unrealized foreign exchange gain (loss) allocated to advances payable	307,302	(22,759)	118,737	713,861
Amortization of deferred charges allocated to mining assets	40,880	-	110,282	-
Amortization of fixed assets allocated to stocks	(42,600)	4,775	(9,424)	11,595
Amortization of fixed assets allocated to mining assets	1,698	1,202,718	5,094	1,202,718
<b><u>Supplemental information</u></b>				
Interests paid during the period	228,363	211,167	753,641	888,228

# **SEMAFO inc.**

## **Notes to Consolidated Financial Statements September 30, 2004 and December 31, 2003**

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(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 with namely two mines in operation: the Kiniero mine in Guinea since April 2002 and the Samira Hill mine in Niger since September 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 1<sup>st</sup>, 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 September 30, 2004 and December 31, 2003

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(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	
	\$	
<b>Consolidated Balance Sheet</b>		
Increase of fixed assets		143,779
Increase of asset retirement obligations		68,305
Decrease in deficit		75,474
	<b>Three-month period ended</b>	<b>Nine-month period ended</b>
	<b>September 30, 2004</b>	<b>September 30, 2004</b>
	\$	\$
<b>Consolidated Statement of Operations</b>		
Decrease in operating expenses	50,453	157,180
Increase in amortization expenses	44,779	134,337
Accretion expense of asset retirement obligations	4,804	14,412
Decrease in net loss	870	8,431
<b>Reconciliation of the total liability for asset retirement obligations</b>		
	As at December 31, 2003	
Balance at December 31, 2003 as previously reported		409,718
Impact of change in accounting policies		68,305
Restated balance at December 31, 2003		478,023

# SEMAFO inc.

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

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(unaudited, expressed in U.S. dollars)

### 3. Changes in accounting policies (continued)

#### Accounting Guidelines 13 «Hedging Relationships»

On January 1<sup>st</sup> 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

September 30, 2004 and December 31, 2003

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(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 September 30, 2004 and December 31, 2003

(unaudited, expressed in U.S. dollars)

### 5. Stocks

	As at September 30, 2004 \$	As at December 31, 2003 \$
Gold ingots	259,403	352,312
Gold in circuit	238,500	237,761
Stockpiles	2,060,389	1,234,988
Supplies and spare parts	2,253,017	984,605
	<u>4,811,309</u>	<u>2,809,666</u>

### 6. Other short-term assets

	As at September 30, 2004 \$	As at December 31, 2003 \$
Amount receivable on disposal of investment in a subsidiaries	490,566	2,000,000
Prepaid expenses	1,034,363	897,562
	<u>1,524,929</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 September 30, 2004 and December 31, 2003

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(unaudited, expressed in U.S. dollars)

### 6. Other short-term assets (continued)

In July 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 Segala. Those shares replace the \$2,000,000 payments respectively planned for July 2004 and July 2005. At the date of this transaction, the shares were valued at \$3,869,210 (\$5,112,000 CA).

#### 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, and according to the its accounting policies, the company realized a gain of \$5,454,057.

As at September 30, 2004, the discounted value of the cash payments to be received is \$953,364. From this amount, a total of \$490,566 is presented in short-term assets and \$462,798 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 September 30, 2004 \$	As at December 31, 2003 \$
Property acquisition costs, deferred exploration and development costs	20,918,871	19,358,191
Buildings and equipment related to mining production	6,164,140	5,531,111
Rolling stock, communication and computer equipment	2,629,896	2,336,977
Deferred stripping costs	536,919	366,871
Asset retirement obligations	616,376	458,807
	<hr/> 30,866,202	<hr/> 28,051,957
Accumulated depreciation	(12,235,781)	(9,120,421)
	<hr/> <hr/> 18,630,421	<hr/> <hr/> 18,931,536

# SEMAFO inc.

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

(unaudited, expressed in U.S. dollars)

### 8 Other long-term assets

	As at September 30, 2004 \$	As at December 31, 2003 \$
Deferred charges	954,016	683,006
Long-term investments	8,293,815	383,293
Amount receivable on disposal of investment in a subsidiary	462,798	-
	<u>9,710,629</u>	<u>1,066,299</u>

### 9 Long-term debt

	As at September 30, 2004 \$	As at December 31, 2003 \$
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 \$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 of 12,500,000 bearing interest at 3.00% over LIBOR payable semi-annually, principal repayable in ten equal quarterly instalments starting April 1 <sup>st</sup> , 2005, secured at 40% by Semafo.	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>26,735,000</u>	<u>19,700,000</u>

# SEMAFO inc.

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

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(unaudited, expressed in U.S. dollars)

### 9. Long-term debt (continued)

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 September 30, 2004, a total of \$20,735,000 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.

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

	\$
2005	10,715,000
2006	4,905,000
2007	4,905,000
2008	4,810,000
2009	1,400,000
	<u>26,735,000</u>

### 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 September 30 2004 \$	As at December 31, 2003 \$
Balance - beginning of period	478,023	240,194
Increase due to accretion expense	28,680	19,216
New liability	157,569	218,613
Balance - end of period	<u>664,272</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.

## **Investor Information**

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

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## **Transfert Agent**

National Bank Trust inc.

## **Stock Exchange Listing**

The Toronto Stock Exchange

Symbol « SMF »

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