Expanding Our Horizons

2008 Annual Financial Information

SEMAFO

Semafo (the "Company") is a Canadian-based mining Company with gold production and exploration activities in West Africa. The Company and its subsidiaries currently operate three gold mines in Burkina Faso, Niger and Guinea. Semafo is committed to evolve in a conscientious manner to become a major player in its geographical areas of interest, while maintaining principles and strengthening relationships to increase shareholder value.

The Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to assess material changes in financial condition and results of operations for the year ended December 31, 2008 compared to those of previous year. This MD&A, prepared as of March 17, 2009, is intended to complement and supplement our Consolidated Financial Statements. It should be read in conjunction with our Consolidated Financial Statements and notes thereto. Our Consolidated Financial Statements and this MD&A are intended to provide investors with a reasonable basis for assessing our results of operation and our financial performance.

Our Consolidated Financial Statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All dollar amounts contained in this MD&A are expressed in US dollars, unless otherwise specified. Effective January 1, 2008, the Company adopted five new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") addressing general standards of financial statement presentation, inventories and disclosures concerning capital and financial instruments. See note 3 of the Consolidated Financial Statements as at December 31, 2008.

Since the start of commercial production at the Mana mine in Burkina Faso on April 1st, 2008, the operating results have been recognized in the statements of operations.

1. Financial and Operating Highlights

	2008	2007	2006
Gold ounces produced	**195,400**	106,400	94,800
Gold ounces sold	**198,000**	105,300	95,000
(In thousands of dollars, except amounts per ounce, per tonne and per share)			
Revenues – Gold sales	**169,911**	74,070	44,449
Operating costs [3]	**100,676**	57,557	43,940
Operating income (loss) [3]	**33,108**	(5,022)	(14,073)
Net income (loss) [3]	**39,529**	(23,110)	(16,112)
Basic and diluted net income (loss) per share [3]	**0.19**	(0.12)	(0.11)
Cash flow from operating activities [1, 3]	**56,339**	10,245	(4,436)
Average selling price (per ounce)	**858**	703	481
Cash operating cost (per ounce produced) [2, 3]	**461**	497	402
Cash operating cost (per tonne processed) [2, 3]	**33**	26	26
Total cash cost (per ounce sold) [3]	**508**	534	436

1 Cash flow from operating activities excludes changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment.

2 Cash operating cost is calculated using ounces produced and tonnes processed. See the section ''Non-GAAP measures'' of this MD&A.

3 The 2006 amounts are restated since the Company adopted CICA EIC-160 '' Stripping Costs Incurred in the Production Phase of a Mining Operation'' in 2007.

A Word from the CEO

The growth of our Company, to that of an intermediary gold producer, progressed well owing to the successful start-up of our Mana mine in Burkina Faso and to the strong performance of our Kiniero and Samira Hill mines. Throughout 2008, we remained disciplined, dedicated and focused on providing positive results and delivering on our commitments.

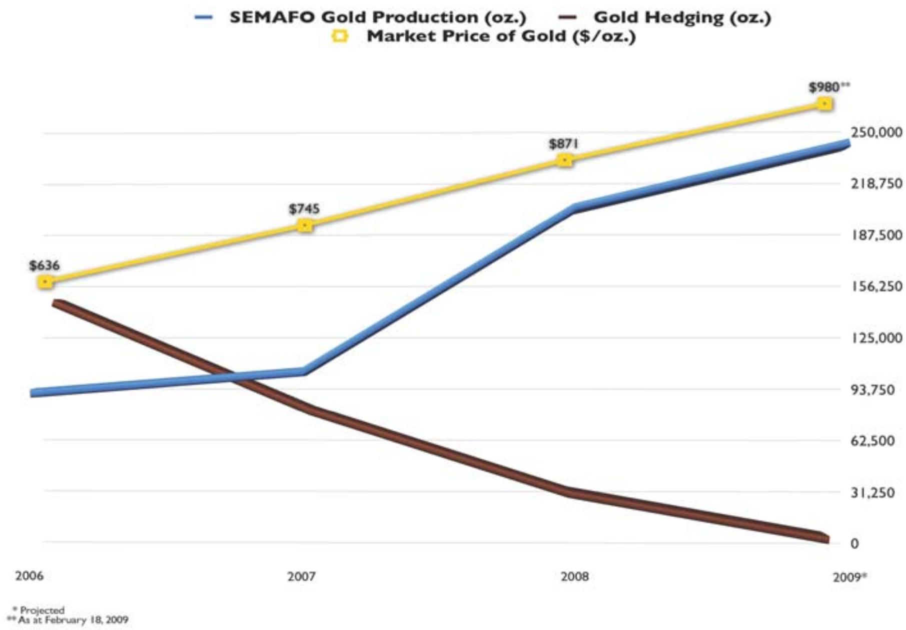
Semafo had a solid year. We surpassed guidance with a total production of 195,400 ounces of gold, representing an 84% increase over last year. Our average selling price of gold in 2008 increased 22% over the previous year to $858 per ounce. Our cash operating cost was reduced by 7% year-over-year to an average of $461 per ounce in 2008. This year, Semafo achieved record gold sales revenues of almost $170 million, representing an increase of 129% over 2007.

Increased production and reduced costs were key to our improved cash flow from operating activities. In 2008, we established a new record with cash flow from operating activities exceeding $56 million; more than five times that of the year prior. Several factors contributed to this improved cash flow. Firstly, the efficient and effective start-up of the Mana mine and installation of the 4,000 tonne-per-day ball mill greatly contributed to our success. At the same time, our very talented operations team succeeded in bringing our Kiniero mine back to profitability, increasing its operating income by 281% over last year. These remarkable achievements, which surpassed our 2008 objectives, are a testimony of the strength and determination of our team.

The Company's progress in 2008 enabled Semafo to establish itself as a profitable investment for shareholders. We were disciplined in our decision-making process and we surpassed expectations.

The Company is scheduled to eliminate its current gold hedge position by the end of June 2009 therefore allowing the Company to take full advantage of increases in price of gold.

The chart below illustrates our positioning in relation to the price of gold:



In 2008, Semafo achieved a year of solid results made possible by a team of individuals with strong principles working together to consistently deliver results. Respect and integrity, the pursuit of excellence, know-how, and teamwork are fundamental to our Company's success. Semafo remains committed to become a major player in its geographical area of interest, while maintaining principles and strengthening relationships to increase shareholder value.

Benoit La Salle
President and Chief Executive Officer

2008 – HIGHLIGHTS

- Successful start-up at the Mana mine in Burkina Faso
- Gold production of 195,400 ounces, an 84% increase over 2007
- Cash operating cost of $461 per ounce, an improvement of 7% over 2007
- Gold sales of $169,911,000
- Operating income of $33,108,000 compared to an operating loss of $5,022,000 in 2007
- Net income of $39,529,000 or $0.19 per share compared to a net loss of $23,110,000 or ($0.12) per share for 2007
- Cash flow from operating activities of $56,339,000 compared to $10,245,000 in 2007
- Return to profitability at the Kiniero mine
- Positive drilling results at Mana

2009 – OBJECTIVES

- Increase gold production by 18% to achieve total annual gold production of between 220,000 and 240,000 ounces
- Increase plant capacity at Mana mine to attain 6,000 tonnes-per-day in saprolite ore
- Continue the exploration programs focusing on increasing mineral resources in the high-potential Wona zone in Burkina Faso
- Maintain stable production at the Samira Hill and Kiniero gold mines
- Pursue accretive acquisition opportunities

Reserves and Resources

MINERAL RESERVES

Mines	Mana [1][2] Burkina Faso	Samira Hill [2][3] Niger	Kiniero [2][4] Guinea	Total
Proven Mineral Reserves				
Tonnes	8,447,000	8,560,300	257,800	17,265,100
Grade (g/t Au)	2.95	1.87	3.17	2.42
Ounces [5]	802,000	514,400	26,300	1,342,700
Probable Mineral Reserves				
Tonnes	1,171,000	1,909,300	1,735,100	4,815,400
Grade (g/t Au)	2.83	1.90	3.77	2.80
Ounces [5]	106,600	116,700	210,100	433,400
TOTAL MINERAL RESERVES				
Tonnes	9,619,000	10,469,700	1,992,900	22,081,600
Grade (g/t Au)	2.90	1.88	3.69	2.49
Ounces [5]	908,600	631,100	236,400	1,776,100

MINERAL RESOURCES

Mines	Mana [1][2] Burkina Faso	Samira Hill [2][3] Niger	Kiniero [2][4] Guinea	Total
Measured Mineral Resources				
Tonnes	1,610,000	13,714,400	1,396,300	16,720,700
Grade (g/t Au)	2.06	1.14	2.34	1.33
Ounces [5]	106,700	500,900	105,200	712,800
Indicated Mineral Resources				
Tonnes	11,297,000	21,088,700	9,633,500	42,019,200
Grade (g/t Au)	2.52	1.17	1.82	1.68
Ounces [5]	914,700	792,600	563,900	2,271,200
TOTAL MINERAL RESOURCES				
Tonnes	12,907,000	34,803,100	11,029,900	58,740,000
Grade (g/t Au)	2.46	1.16	1.89	1.58
Ounces [5]	1,021,400	1,293,500	669,100	2,984,000
TOTAL MINERAL RESERVES AND RESOURCES				
Tonnes	22,526,000	45,272,800	13,022,800	80,821,600
Grade (g/t Au)	2.65	1.32	2.17	1.83
Ounces [5]	1,930,000	1,924,600	905,500	4,760,100
INFERRED MINERAL RESOURCES				
Tonnes	7,211,000	18,906,000	1,507,100	27,624,100
Grade (g/t Au)	2.19	1.00	2.58	1.40
Ounces [5]	508,200	608,100	124,900	1,241,200

We are presenting 100% of the reserves and resources of the mines in the above table as they are mostly attributable to Semafo in accordance with its financial structure. Cut-off grades are established with the Ultimate Pit software in consideration of the rock type and haulage distance. Cut-off grades vary from 0.8 g/t to 2.0 g/t.

(1) The Company indirectly owns 90% of Semafo Burkina which directly holds the interest in the Mana Mine reserves and resources.
(2) Mineral reserves estimated using US$750 per ounce of gold.
(3) Mineral reserves and resources at the Samira Hill Mine represent the combined reserves and resources of SML and AGMDC. The Company indirectly owns 40% of SML and indirectly controls SML through its control of AGMDC pursuant to the Company's right to elect a majority of the board members of AGMDC.
(4) The Company indirectly owns 85% of Semafo Guinée which directly holds the interest in the Kiniero Mine reserves and resources.
(5) Rounding of numbers to the nearest hundreds of tonnes may introduce slight differences in the figures representing the ounces contained.

The following estimates of mineral reserves and resources were estimated as at December 31, 2008 in accordance with the definitions adopted by the Canadian Institute of Mining Metallurgy and Petroleum and incorporated into National Instrument 43-101 - *Standards of Disclosure for Mineral Projects* ("NI 43-101").

Exploration

Burkina Faso

The main objective of the 2008 exploration program was to increase reserves as well as measured and indicated resources and the further development of the two high potential Wona zones discovered in 2007. More specifically, we focused on the NE extension of the Wona deposit and its mineralization lode.

Our program was a success as the Company added over 50,000 ounces in reserves from the NE extension of Wona. Moreover inferred resources from Wona at depth were better defined enabling increasing total indicated Mana indicated resources to 11,297,000 tonnes at 2.52g/t from 2,709,200 tonnes at 2.13g/t in 2007. We have also added 18,000 ounces in reserves at an average grade of 3.6 g/t from the Filon 67 pit.

Overall in 2008, we executed over 8,500 meters of at depth core drilling at Wona NE, 7,600 meters of RC drilling on Wona NE and over 1,700 meters of RC drilling on the Filon 67 ore body.

Highlights of the intersections are as follows:

HOLE NO	FROM	TO	AU(G/T)
WDC58	282	308	**4.04g/t/26m**
inclus.	295	308	**5.66g/t/13m**
WDC59	234	242	**2.57g/t/8m**
WDC59	260	264	**3.55g/t/4m**
WDC60	493	515	**3.26g/t/20m**
inclus.	502	510	**4.04g/t/8m**
WDC61	327	348	**2.87g/t/21m**
inclus.	335	339	**4.26g/t/4m**
WDC62	417	461	**2.43g/t/44m**
inclus.	431	435	**4.69g/t/4m**
WDC63	113	146	**3.14g/t/33m**
inclus.	124	136	**6.16g/t/12m**
WDC64	152	206	**2.13g/t/54m**
inclus.	194	201	**5.46g/t/7m**
WDC65	158	186	**3.85g/t/28m**
inclus.	171	180	**7.88g/t/9m**
WDC66	172	188	**3.31g/t/16m**
inclus.	178	186	**5.73g/t/8m**
WDC67	175	181	**1.72g/t/6m**

HOLE NO	FROM	TO	AU(G/T)
WDC68	194	219	**4.36g/t/25m**
WDC69	120	155	**2.70g/t/35m**
inclus.	133	144	**5.52g/t/11m**
WDC70	228	276	**4.09g/t/48m**
inclus.	265	274	**11.50g/t/9m**
WDC71	293	342	**2.46g/t/49m**
WDC72	293	353	**3.92g/t/60m**
inclus.	313	333	**7.01g/t/20m**
WDC73	355	412	**1.46g/t/57m**
inclus.	398	412	**3.97g/t/12m**
WDC74	489	495	**1.57g/t/6m**
WDC74	525	537	**2.68g/t/12m**
WDC75	468	486	**1.68g/t/18m**
inclus.	476	485	**2.08g/t/9m**
WDC76	542	544	**1.53g/t/2m**
WDC77	367	376	**4.39g/t/9m**
inclus.	589	591	**6.24g/t/2m**
WDC78	439	448	**1.47g/t/9m**
WDC79	400	404	**1.15g/t/4m**

Exploration (continued)

Burkina Faso (continued)

HOLE NO	FROM	TO	AU(G/T)
WRC352	62	85	**1.57g/t/23m**
WRC353	98	122	**2.33g/t/24m**
WRC357	55	62	**5.76g/t/7m**
WRC358	40	51	**4.97g/t/11m**
WRC358	60	109	**1.15g/t/49m**
WRC360	59	65	**3.85g/t/6m**
WRC361	40	49	**5.63g/t/9m**
WRC364	36	60	**3.97g/t/24m**
WRC364	72	113	**3.73g/t/41m**
WRC368	24	45	**5.71g/t/21m**
WRC371	96	106	**3.72g/t/10m**
WRC373	94	111	**4.24g/t/17m**
WRC374	110	119	**2.68g/t/9m**
WRC380	29	37	**6.12g/t/8m**
WRC382	128	141	**3.10g/t/13m**

HOLE NO	FROM	TO	AU(G/T)
WRC388	88	118	**1.80g/t/30m**
WRC399	121	152	**1.47g/t/31m**
WRC399	66	85	**3.21g/t/19m**
WRC405	27	35	**3.59g/t/8m**
WRC406	43	50	**3.29g/t/7m**
WRC407	11	26	**7.8g/t/15m**
WRC408	9	20	**2.96g/t/11m**
WRC409	89	99	**2.95g/t/10m**
WRC410	45	56	**4.12g/t/11m**
WRC411	38	53	**3.27g/t/15m**
WRC412	56	65	**3.43g/t/9m**
WRC413	70	82	**4.37g/t/12m**
WRC415	58	68	**5.11g/t/10m**
WRC419	23	29	**4.06g/t/6m**
WRC422	12	20	**7.58g/t/8m**

These exceptional results led to an important increase of measured and indicated resources which went from 317,800 ounces to 1,021,400 in 2008, showing a 220% increase and the high potential for underground mining.

In 2009, our exploration program will essentially focus on the at-depth high potential Wona zone with approximately 20,000 meters of core drilling.

As at December 31, 2008 our mineral reserves at Mana totalled 908,600 ounces of gold and our resources, 1,021,400 ounces of gold.

Exploration (continued)

Niger

The main objective of our 2008 exploration program at Samira Hill was to convert part of the Sikia and Libiri Plateau resources into reserves.

During the year, and taking into account the actual reserves and mine life at Samira Hill, the decision was made to postpone exploration. Earlier in the year, generative exploration was carried out such as auger drilling and mapping, which enabled us to identify new drilling targets mainly in the Libiri area.

As at December 31, 2008 our mineral reserves at Samira Hill totalled 631,100 ounces of gold and our resources totalled 1,293,500 ounces.

Guinea

The main objective of our 2008 exploration program at Kiniero was to convert part of the West Balan extension into reserves thereby including this pit in our 2009 mine plan.

Our program was successful and added more than 46,000 ounces of gold in reserves in the West Balan area, representing the main ore source of our 2009 mine plan. Work performed in 2008 included 20,000 meters of RC drilling on the West Balan extension.

At year-end, we also carried out a 900-meter infill and validation drilling program on the SGA zone (Zone Gobele A, which includes Gobele A, Gobele A North, Gobele B and Gobele B South). Some twin holes confirmed mineralization, but at a lower grade and infill, unfortunately restricting ore bodies and therefore leading to a decrease in reserves and strip ratio.

In 2008, we also performed IP surveys (gradient and pole-dipole) generating new drilling targets on both sides of the West Balan pits.

As at December 31, 2008 our mineral reserves at Kiniero totalled 236,400 ounces of gold and our resources totalled 669,100 ounces.

2. Consolidated Results and Mining Operations

Operating Highlights

	2008	2007	Variation
Gold ounces produced	**195,400**	106,400	84%
Gold ounces sold	**198,000**	105,300	88%
(In thousands of dollars, except amounts per ounce and per tonne)			
Revenues – Gold sales	**169,911**	74,070	129%
Operating costs	**100,676**	57,557	75%
Operating income (loss)	**33,108**	(5,022)	759%
Net income (loss)	**39,529**	(23,110)	271%
Average selling price (per ounce)	**858**	703	22%
Cash operating cost (per ounce produced) [1]	**461**	497	(7%)
Cash operating cost (per tonne processed) [1]	**33**	26	27%
Total cash cost (per ounce sold) [2]	**508**	534	(5%)

[1] Cash operating cost is calculated using ounces produced and tonnes processed. See the section ''Non-GAAP measures'' of this MD&A.

[2] Total cash cost represents the cash operating cost plus royalties and selling expenses and also the effects of inventory adjustments.

2008 v. 2007

- For the year ended December 31, 2008, gold sales totalled $169,911,000 compared to $74,070,000 for 2007. This 129% increase is due to the 22% increase in the average selling price of gold and the 88% increase in gold ounces sold. This latter increase is mainly due to the commencement of commercial production at the Mana mine on April 1st, 2008 and increased production at Kiniero.
- Operating income greatly improved reaching $33,108,000 compared to an operating loss of $5,022,000 for 2007. This improved operating income is primarily due to increased gold sales and to a decrease in operating costs per ounce.
- Net income reached $39,529,000 or $0.19 per share compared to a net loss of $23,110,000 or ($0.12) per share for 2007. This increase is mainly due to a higher operating income. This increase also takes into consideration the gain on disposal of our uranium subsidiary in the amount of $17,849,000 and the decrease of $12,846,000 in unrealized losses following the change to the fair value of derivative financial instruments.

Operating Income by Segment

(In thousands of dollars)	2008	2007	Variation
Mana mine, Burkina Faso	**18,878**	-	-
Samira Hill mine, Niger	**8,213**	8,587	(4%)
Kiniero mine, Guinea	**13,509**	(7,470)	281%
Corporate and others	**(7,492)**	(6,139)	(22%)
Total	**33,108**	(5,022)	759%

Mining Operations

Mana, Burkina Faso

	2008	2007
Operating Data		
Ore mined (tonnes)	**902,100**	-
Ore processed (tonnes)	**773,700**	-
Head grade (g/t)	**3.62**	-
Recovery (%)	**93**	-
Gold ounces produced	**74,000**	-
Gold ounces sold	**73,900**	-
Financial Data (in thousands of dollars) [3]		
Revenues – Gold sales	**61,982**	-
Mining operations expenses	**30,687**	-
Amortization	**11,722**	-
Administration	**634**	-
Accretion expense of asset retirement obligations for property, plant and equipment	**61**	-
Segment operating income	**18,878**	-
Statistics ($) [3]		
Average selling price (per ounce)	**839**	-
Cash operating cost (per ounce produced) [1]	**384**	-
Cash operating cost (per tonne processed) [1]	**41**	-
Total cash cost (per ounce sold) [2]	**415**	-
Amortization (per ounce sold)	**159**	-

1 Cash operating cost is calculated using ounces produced and tonnes processed. See the section ''Non-GAAP measures'' of this MD&A.
2 Total cash cost represents the cash operating cost plus royalties and selling expenses and also the effects of inventory adjustments.
3 Commercial production commenced on April 1, 2008.

2008

- The year 2008 represents a series of achievements for the Mana project.
  - Start-up of the plant on February 15th with the 2,000 tonne-per-day ball mill.
  - First gold pour on March 31st.
  - Commercial production declared as at April 1st, 2008 after a very smooth commissioning period.
  - First quarter of production exceeded expectations with a gold production of 17,200 ounces.
  - Commissioning of the 4,000 tonne-per-day ball mill during the third quarter and the attainment of the design capacity only one month after the commissioning.
  - Second quarter of production of 26,800 ounces.
  - Solid third quarter of production with a gold production of 29,900 ounces for a total production for the year of 74,000 ounces.
- The following table details the operating data pertaining to the ramp up:

	Q-1	Q-2	Q-3	Q-4
Ore processed (tonnes)	41,700	150,200	228,600	353,200
Head grade (g/t)	2.29	4.18	4.32	3.10
Recovery (%)	94	92	93	93
Gold ounces produced	100	17,200	26,800	29,900

- For the year ended December 31, 2008, a total of 902,100 tonnes of ore and 9,111,400 tonnes of waste material were extracted from the Wona and Nyafé pits, resulting in a stripping ratio of 10:1.
- During the year 2008, the Company processed 773,700 tonnes of ore at an average grade of 3.62 g/t.
- Cash operating cost for the year was $384 per ounce.
- Detailed engineering studies to increase plant capacity were completed.

Mining Operations

Samira Hill, Niger

	2008	2007	Variation
Operating Data			
Ore mined (tonnes)	**1,418,100**	1,595,000	(11%)
Ore processed (tonnes)	**1,521,400**	1,510,500	1%
Head grade (g/t)	**1.80**	1.99	(10%)
Recovery (%)	**79**	83	(5%)
Gold ounces produced	**69,700**	79,300	(12%)
Gold ounces sold	**71,000**	78,200	(9%)
Financial Data (in thousands of dollars)			
Revenues – Gold sales	**61,634**	55,270	12%
Mining operations expenses	**44,353**	36,495	22%
Amortization	**7,495**	8,781	(15%)
Administration	**1,425**	1,282	11%
Accretion expense of asset retirement obligations for property, plant and equipment	**148**	125	18%
Segment operating income	**8,213**	8,587	(4%)
Statistics ($)			
Average selling price (per ounce)	**868**	707	23%
Cash operating cost (per ounce produced) [1]	**572**	425	35%
Cash operating cost (per tonne processed) [1]	**26**	22	18%
Total cash cost (per ounce sold) [2]	**625**	467	34%
Amortization (per ounce sold)	**106**	112	(5%)

[1] Cash operating cost is calculated using ounces produced and tonnes processed. See the section ''Non-GAAP measures'' of this MD&A.
[2] Total cash cost represents the cash operating cost plus royalties and selling expenses and also the effects of inventory adjustments.

2008 v. 2007

- During the year ended December 31, 2008, 1,418,100 tonnes of ore and 4,505,700 tonnes of waste material were extracted from the Samira Main and Libiri pits, resulting in a strip ratio of 4:1. In 2007, 1,595,000 tonnes of ore and 5,604,100 tonnes of waste material were extracted for a strip ratio of 3.5:1.
- A total of 1,521,400 tonnes of ore at an average grade of 1.80 g/t was processed in 2008, compared to 1,510,500 tonnes at an average grade of 1.99 g/t for 2007. The decrease in grade is mainly due to the processing of ore from the Libiri pits and stockpiled ore. Libiri pits have an average grade of 1.8 g/t.
- The decline in the recovery rate, from 83% for the year ended December 31, 2007 to 79% during 2008, is primarily due to higher levels of graphite in the ore processed from the Samira Main pit during the first quarter of 2008.
- The decrease in gold production is mainly due to the lower grade of ore processed.
- Cash operating cost per ounce increased in 2008 compared to 2007 as detailed in the following table:

Mining Operations

Samira Hill, Niger (continued)

Changes in Cash Operating Cost:	Per tonne processed $	Per ounce produced $
Cash Operating Cost – 2007	**22**	**425**
Increase in price of fuel	1	17
Increase in price and consumption of reagents and consumables	2	34
Increase in salary expense	1	17
Decrease of head-grade recovered in ore processed	-	79
Cash Operating Cost – 2008	**26**	**572**

Mining Operations

Kiniero, Guinea

	2008	2007	Variation
Operating Data			
Ore mined (tonnes)	**573,300**	384,500	49%
Ore processed (tonnes)	**558,900**	465,100	20%
Head grade (g/t)	**3.24**	1.99	63%
Recovery (%)	**91**	92	(1%)
Gold ounces produced	**51,700**	27,100	91%
Gold ounces sold	**53,100**	27,100	96%
Financial Data (in thousands of dollars)			
Revenues – Gold sales	**46,295**	18,800	146%
Mining operations expenses	**25,636**	21,062	22%
Amortization	**6,099**	3,391	80%
Administration	**828**	1,721	(52%)
Accretion expense of asset retirement obligations for property, plant and equipment	**223**	96	132%
Segment operating income	**13,509**	(7,470)	281%
Statistics ($)			
Average selling price (per ounce)	**872**	694	26%
Cash operating cost (per ounce produced) [1]	**421**	707	(40%)
Cash operating cost (per tonne processed) [1]	**39**	41	(2%)
Total cash cost (per ounce sold) [2]	**483**	729	(34%)
Amortization (per ounce sold)	**115**	125	(8%)

1 Cash operating cost is calculated using ounces produced and tonnes processed. See the section ''Non-GAAP measures'' of this MD&A.

2 Total cash cost represents the cash operating cost plus royalties and selling expenses and also the effects of inventory adjustments.

2008 v. 2007

- During the year ended December 31, 2008, 573,300 tonnes of ore and 4,578,000 tonnes of waste material were extracted compared to 384,500 tonnes of ore and 5,836,500 tonnes of waste material during 2007. This represents a stripping ratio, of 8:1 for 2008, compared to 15:1 in 2007. This reduction was mainly due to the mining of the West Balan pit which has a lower strip ratio.
- Throughput increased by 20% in 2008 compared to 2007, at which time to lack of ore and plant shutdown for maintenance resulted in a decreased throughput.
- The head grade increased by 63% to reach 3.24 g/t. This significant increase is primarily due to the operations in the West Balan pit, with known reserves of an average grade of 3.1 g/t in saprolite ore. Additionally, in 2007, inaccuracies in the geological models, development of new pits and a national strike, necessitated the processing of lower-grade stockpiled ore.
- A total of 51,700 ounces of gold were produced at Kiniero during 2008, representing a 91% increase over 2007.
- The 40% reduction in the cash operating cost per ounce was mainly due to the higher grade of the ore processed and the decrease in the stripping ratio.

Mining Operations

Kiniero, Guinea (continued)

Changes in Cash Operating Cost:	Per tonne processed $	Per ounce produced $
Cash Operating Cost – 2007	**41**	**707**
Decrease in the strip ratio	(8)	(184)
Increase in price of fuel	3	69
Increase in maintenance	1	23
Increase in price and consumption of reagents and consumables	2	46
Increase of the head grade recovered in ore processed	-	(240)
Cash Operating Cost – 2008	**39**	**421**

Administration

Administration expenses totalled $10,250,000 in 2008 compared to $8,990,000 in 2007. The addition of a third mine in 2008 and increase in investor relations explain the overall increase.

Interest on Long-Term Debt

The interest on long-term debt totalled $4,621,000 in 2008 compared to $1,908,000 in 2007, representing an increase of $2,713,000. The increase is mainly due to the interest on the Mana mine $45,000,000 term facility that is no longer capitalised since the commencement of commercial production on April 1, 2008.

Change to the Fair Value of Derivative Financial Instruments

Pursuant to the variation in the gold prices during 2008, an unrealized loss of $5,077,000 on derivative financial instruments (gold sales contracts, gold purchase contracts and put options) was recorded, compared to an unrealized loss of $17,923,000 for the same period in 2007.

Gain on Disposal of Investment in Subsidiaries

In February 2008, the Company completed a transaction with Govi High Power Exploration Inc. ("GoviEx") aimed at combining the companies' interests in uranium mining projects (Energy–Projects). As part of this transaction, the Company sold all of its shares in its subsidiary Semafo Energy (Barbados) Limited in consideration of approximately 12% of GoviEx's outstanding shares at the transaction date. This transaction resulted in a non-cash gain of $17,849,000 in 2008.

Loss on Disposal of Portfolio Investments

During the year 2008, the Company recorded a loss on disposal of portfolio investments of $317,000 following the disposal of shares in a publicly traded company for a cash consideration of $702,000. The Company received those shares in 2005 following the disposal of an exploration property in Ghana.

3. Cash Flow

The following table summarizes our cash flow activities:

(In thousands of dollars)	2008	2007
Cash flow		
Operations	**56,339**	10,245
Working capital items	**(9,939)**	(9,444)
Operating activities	**46,400**	801
Financing activities	**13,983**	58,571
Investing activities	**(66,985)**	(111,933)
Change in cash and cash equivalents during the year	**(6,602)**	(52,561)
Cash and cash equivalents - Beginning of year	**30,044**	82,605
Cash and cash equivalents - End of year	**23,442**	30,044

Operating

Operating activities before working capital items generated liquidities of $56,339,000 in 2008 reflecting the increase in the price of gold, the increase in the ounces sold, as well as the decrease in the total cash cost. In 2007, operating activities generated liquidities of $10,245,000.

Working capital items required liquidities of $9,939,000 during 2008. Inventory increase of $18,670,000 is due to the Mana mine start-up and the general increase in the level of spare parts to lessen the impact of the growing delays in procurement to ensure availability of equipment. This latter increase was partially offset by the increase of $7,158,000 in accounts payable and accrued liabilities mainly due to the start-up of the Mana mine. Detail in changes in working capital items is provided in note 18 a) of our 2008 Consolidated Financial Statements.

Financing

The Company reimbursed $7,768,000 of its long-term debt during 2008. During the same period in 2007, $5,536,000 was reimbursed.

During the first quarter of 2008, the Company made its final drawdown of its term facility of $45,000,000, in the amount of $4,250,000. In June 2008, the Company rescheduled the capital repayment of this term facility to 12 quarterly payments of $3,750,000 starting March 31, 2009.

On December 30, 2008, the Company closed a public offering of 19,205,000 common shares at $0.98 (CA $1.20) per share, for gross proceeds of $18,782,000 (CA $23,046,000). Share issue expenses related to this public offering totalled $1,316,000. In 2008, 35,500 options were exercised for a cash consideration of $35,000.

Use of proceeds as at December 31, 2008 in comparison to the previously proposed use of proceeds of our 2008 and 2007 public offerings is as follows:

	Investment announced-financing 2008 $	Actual use of proceeds, December 31, 2008 $	Investment announced-financing 2007 $	Actual use of proceeds, December 31, 2008 $
Reduction in hedge program	15,000,000	4,525,000	15,000,000	15,000,000
Working capital, including acquisition of spare parts and building of ROM pad	-	-	8,982,000	8,982,000
General corporate purposes	2,466,000	-	-	-
	17,466,000	**4,525,000**	**23,982,000**	**23,982,000**

Investing

Investments of $41,093,000 in property, plant and equipment were made in 2008 compared to investments of $85,245,000 during 2007.

Liquidities of $24,571,000 were invested in the finalization of the Mana project during 2008 compared to $60,679,000 in 2007. These investments also represent exploration expenditures totalling $6,317,000, $612,000 in Semafo Energy, the acquisition of mining equipment in the amount of $1,834,000, as well as sustainable capital expenditures in the amount of $7,759,000. Investments in 2007 mainly represented exploration expenditures on the Mana property of $3,222,000, exploration expenditures on the Kiniero and the Samira Hill sites in the amount of $6,659,000, the acquisition of mining equipment in the amount of $4,618,000 as well as sustainable capital expenditures in the amount of $10,067,000.

In 2008, the Company proceeded to the settlement of gold sales contracts, representing 57,000 ounces for a total amount of $30,219,000, and cashed $375,000 in relation to the interest rate swap. In 2007, the Company proceeded to the settlement of gold sales contracts representing 62,000 ounces for a total amount of $19,057,000 and cashed $669,000 in relation to the interest rate swap.

Investing (continued)
As a condition of the financing of the Mana project in 2007, the Company was required to maintain a cash balance of $7,000,000 in a segregated account until achievement of specific milestones related to the Mana project. These milestones were attained on September 30, 2008. As a result, an amount of $3,250,000 became available without restriction and the Company is now required to maintain a cash balance of $3,750,000 in a segregated account until the full repayment of the loan.

Financial Position
As at December 31, 2008, the Company benefited from a solid financial situation with $28,742,000 in cash and cash equivalents and restricted cash.

The Company's cash requirements over the next twelve months relate primarily to the following activities:

- Long-term debt reimbursement;
- Mana expansion project;
- Settlement of gold contracts; and
- Exploration programs.

4. Balance Sheets

(In thousands of dollars)	2008	2007
Current assets	**82,457**	77,750
Restricted cash	**4,050**	1,550
Property, plant and equipment	**202,980**	188,916
Investment and other assets	**25,186**	4,022
Total Assets	**314,673**	272,238
Total Liabilities	**120,353**	135,884
Shareholders' Equity	**194,320**	136,354

The Company's total assets amounted to $314,673,000 as at December 31, 2008, compared to $272,238,000 as at December 31, 2007.

As at December 31, 2008, the Company held cash and cash equivalents of $23,442,000, compared to $30,044,000 as at December 31, 2007. In addition, the Company held $5,300,000 ($8,550,000 in 2007) in restricted accounts according to conditions associated to its loans as described in note 8 of the 2008 Consolidated Financial Statements. The Company does not anticipate that these restrictions will cause any impact on its capacity to honor its obligations.

The Company's property, plant and equipment totalled $202,980,000 as at December 31, 2008 compared to $188,916,000 as at December 31, 2007, representing an increase of $14,064,000. This increase is primarily due to the finalization of the Mana project.

As part of the GoviEx transaction, Semafo received shares of GoviEx valued at $19,600,000 which represents the majority of the increase in "Investment and other assets".

Total liabilities amounted to $120,353,000 as at December 31, 2008, compared to $135,884,000 as at December 31, 2007. On June 26, 2008, the Company entered into an amendment to its $45,000,000 term facility. The amendment involved the capital repayments and interest rate. The Company rescheduled $9,000,000 in capital repayments, originally due and payable in three installments of $3,000,000 each on June 30, 2008, September 30, 2008 and December 31, 2008. Following this amendment, 12 quarterly capital repayments of $3,750,000 each will be made, with the first payment due and payable on March 31, 2009 instead of 15 payments of $3,000,000 each.

4. Balance Sheets (continued)

In addition, the amendment included converting from a floating rate to a fixed rate of 7.62% until the maturity date of December 31, 2011.

Share capital totalled $293,910,000 as at December 31, 2008, compared to $275,682,000 as at December 31, 2007. This increase is the result of the equity financing that occurred in December 2008.

5. Critical Accounting Estimates

The critical accounting estimates are estimates that are highly uncertain and for which changes could materially impact the Company's results and financial situation.

Mineral Reserve Estimates

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

Semafo's proven and probable mineral reserves as at December 31, 2008 are 1,776,100 ounces.

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

The Company's reserve estimates may have a great impact on the information contained in the Company's financial statements. A large portion of the Company's property, plant and equipment is amortized using the units of production method over the expected operating life of the mine based on estimated recoverable ounces of gold. Estimated recoverable ounces of gold include proven and probable reserves and non-reserved material when sufficient objective evidence exists that it is probable the non-reserve material will be produced. A decrease in the Company's mineral reserves would increase amortization expense and this could have a material impact on the Company's operating results.

Periodically, the Company performs an impairment test to assess the realizable value of its property, plant and equipment and mining assets. Mineral reserve estimates are the most important variable in those amortization tests. A decrease in the Company's reserves could jeopardize the net realizable value of assets and could lead to a significant loss.

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

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

6. Derivative Financial Instruments

The following table presents a summary as at December 31, 2008 of the Company's commitments relating to gold forward contracts.

	2009 (remaining ounces)	$/oz
Gold sales contracts (a)	26,000	375
Gold purchase contracts (c)	(18,000)	993
Gold contracts – net sales commitment	8,000	

a) Gold Sales Contracts

During 2008, the Company proceeded to the settlement of gold sales contracts, representing 57,000 ounces for a total amount of $30,219,000 (62,000 ounces for a total amount of $19,057,000 in 2007).

b) Interest-Rate Swap

The gold sales contracts include an interest rate swap on a nominal amount corresponding to the ounces at the contractual price as disclosed above (a). Pursuant to the swap agreement, the Company is committed to pay the difference between the LIBOR USD three (3) months and the GOFO three (3) months interest rate, whereas the counterparty is committed to pay a fixed interest rate of 1% per annum.

c) Gold Purchase Contracts

In 2008, Semafo purchased gold futures contracts to apply against its gold delivery commitments from February 2008 to June 2009. In so doing, as at December 31, 2008, the Company limited the potential accounting loss arising from a revaluation of its financial instruments with respect to these 18,000 ounces of gold.

d) Put Options

In 2007, the Company implemented a gold price put protection program for 55,000 ounces for the Mana mine, which was a requirement under the $45,000,000 debt facility.

The Company purchased put options allowing it to price-protect at a minimum price of $600 per ounce for 55,000 ounces of gold broken down on a monthly basis as follows: 5,000 ounces in 2009, 5,000 ounces in 2010 and 45,000 ounces in 2011. Consequently, the entire production will be available to be sold at spot prices and fully exposed to any increase in the gold price with the downward price protected at $600 per ounce on 55,000 ounces.

7. Contractual Obligations and Commitments

Long-Term Debt

Pursuant to the Company's long-term debt agreements, the aggregate amount of the long-term debt payments required in each of the next five calendar years is as follows:

	$
2009	23,224
2010	22,903
2011	15,178
2012	178
2013 onwards	533
	62,016

Asset Retirement Obligations

The Company's operations are governed by mining agreements covering the protection of the environment. The Company conducts its operations in such manner as to protect public health and the environment. The Company will implement progressive measures for rehabilitation work during the operation, in accordance with its mining agreements, closing-down and follow-up work upon closing of the mine. The estimated undiscounted cash flow required to settle the asset retirement obligations is $6,257,000. These disbursements are expected to be made during the years 2009 to 2017. The amount accounted for as liabilities in the Company's consolidated financial statements represent the discounted obligations from rehabilitation and closing plans. An 8% discount rate was used to evaluate the obligations.

Royalties and Development Taxes

Pursuant to the Company's mining agreements, the Company has royalty commitments, which generate obligations upon gold deliveries. If the Company's mines do not produce gold, it has no payment obligation. Each gold shipment is subject to royalty fees of 5% in Guinea, 5.5% in Niger and 3% in Burkina Faso, based on the value of the shipment, evaluated at the spot price on the delivery date. In Guinea, the Company is also committed to invest 0.4% of its gold sales in local development projects.

Payments to Maintain Mining Rights

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

8. Risks and Uncertainties

As a mining company, the Company faces the financial, operational, political and environmental risks inherent to the nature of its activities. These risks may affect the Company's profitability and level of operating cash flow. The Company also faces risks stemming from other factors, such as fluctuations in gold prices, petroleum prices, interest rates, exchange rates and financial market conditions in general. As a result, the securities of the Company must be considered speculative. Prospective purchasers of the common shares of the Company should give careful consideration to all of the information contained or incorporated by reference in this Management's Discussion and Analysis and, in particular, the following risk factors:

Financial Risks

Fluctuation in Gold Prices

The profitability of the Company's operations will be significantly affected by changes in the market price of gold. Gold production from mining operations and the willingness of third parties, such as central banks, to sell or lease gold affects the gold supply. Demand for gold can be influenced by economic conditions, gold's attractiveness as an investment vehicle and the strength of the US dollar and local investment currencies. Other factors include the level of interest rates, exchange rates, inflation and political stability. The aggregate effect of these factors is impossible to predict with accuracy. Gold prices are also affected by worldwide production levels. In addition, the price of gold has, on occasion, been subject to very rapid short-term changes because of speculative activities. Fluctuations in gold prices may adversely affect the Company's financial performance and results of operations.

Fluctuation in Petroleum Prices

Because the Company uses petroleum fuel to power its mining equipment and to generate electrical energy to supply its mining operations, the Company's operating results and financial results may be adversely affected by rising petroleum prices.

Fluctuation in Interest Rates

As a borrower, the Company is subject to the risk of increases in interest rates. The Company has long-term debts bearing interest at a LIBOR based rate. As at December 31, 2008, the Company's long-term outstanding debt totalled $62,016,000 of which $2,500,000 bears LIBOR-based interest rates.

Exchange Rate Fluctuations

The operations of the Company in West Africa are subject to currency fluctuations and such fluctuations may materially affect the financial position and results of the Company. Gold is currently sold in US dollars and although the majority of the costs of the Company are also in US dollars, certain costs are incurred in other currencies. The appreciation of non-US dollar currencies against the US dollar can increase the cost of exploration and production in US dollar terms, which could materially and adversely affect the Company's profitability, results of operations and financial condition.

Access to Capital Markets

To fund its growth, the Company is often dependent on securing the necessary capital through loans or permanent capital. The availability of this capital is subject to general economic conditions and lender and investor interest in the Company's projects. To ensure the availability of capital, the Company maintains an investor relations program in order to inform all shareholders and potential investors of the Company's developments.

Gold Sales Contracts

In the past, the Company has entered into gold sales contracts to sell gold at a fixed or capped price on a future delivery date, pursuant to the terms of loan agreements. When the gold price rises above the price at which future production has been committed under the Company's forward sales contracts, the Company may not benefit fully from price increases.

Operational Risks

Uncertainty of Reserve and Resource Estimates

The figures for reserves and resources presented herein, and in the documents incorporated by reference, are estimates based on limited information acquired through drilling and other sampling methods. No assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. The ore grade actually recovered may differ from the estimated grades of the reserves and resources. Such figures have been determined based upon assumed gold prices and operating costs. Future production could differ dramatically from reserve estimates for, among others, the following reasons:

- Mineralization or formations could be different from those predicted by drilling, sampling and similar examinations;
- Increases in operating mining costs and processing costs could adversely affect reserves;
- Grades of the reserves may vary significantly from time to time and there is no assurance that any particular level of gold may be recovered from the reserves; and
- Declines in the market price of gold may render the mining of some or all of the reserves uneconomic.

Any of these factors may require the Company to reduce its reserves estimates or increase its costs. Short-term factors, such as the need for the additional development of a deposit or the processing of new different grades, may impair the Company's profitability. Should the market price of gold fall, the Company could be required to materially write down its investment in mining properties or delay or discontinue production or the development of new projects.

Production

No assurance can be given that the intended or expected production schedules or the estimated direct operating cash costs will be achieved in respect of the operating gold mines in which the Company has an interest. Many factors may cause delays or cost increases, including, without limitation, labour issues, disruptions in power, transportation or supplies, and mechanical failure. The revenues of the Company from the operating gold mines will depend on the extent to which expected operating costs in respect thereof are achieved. In addition, short-term operating factors, such as the need for the orderly development of ore bodies or the processing of new or different ore grades, may cause a mining operation to be unprofitable in any particular accounting period.

Nature of Mineral Exploration and Mining

The Company's profitability is significantly affected by the Company's exploration and development programs. The exploration and development of mineral deposits involve significant financial risks over a significant period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of a gold-bearing structure may result in substantial rewards, few properties explored are ultimately developed into mines. Major expenses may be required to establish and replace reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that the current or proposed exploration programs on the Company's exploration properties will result in profitable commercial mining operations.

Operational Risks (continued)

Nature of Mineral Exploration and Mining (continued)

The Company's operations are, and will continue to be, subject to all of the hazards and risks normally associated with the exploration, development and production of gold, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all damage. The Company's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which the Company has interests. Hazards, such as unusual or unexpected formations, rock bursts, pressures, cave-ins, flooding or other conditions may be encountered in the drilling and removal of material. While the Company may obtain insurance against certain risks in such amounts as it considers adequate, the nature of these risks are such that liabilities could exceed policy limits or could be excluded from coverage. There are also risks against which the Company cannot insure or against which it may elect not to insure. The potential costs which may be associated with any liabilities not covered by insurance or in excess of insurance coverage or compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the Company's earnings and competitive position in the future and, potentially, its financial position and results of operations.

Whether a gold deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as its size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of gold, revenue repatriation and environmental protection. The effects of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Depletion of the Company's Mineral Reserves

The Company must continually replace mining reserves depleted by production to maintain production levels over the long term. This is done by expanding known mineral reserves or by locating or acquiring new mineral deposits. There is, however, a risk that depletion of reserves will not be offset by future discoveries of mineral reserves. Exploration for minerals is highly speculative in nature and involves many risks. Many projects are unsuccessful and there are no assurances that current or future exploration programs will be successful. Further, significant costs are incurred to establish mineral reserves, open new pits and construct mining and processing facilities. Development projects have no operating history upon which to base estimates of future cash flow and are subject to the successful completion of feasibility studies, obtaining necessary government permits, obtaining title or other land rights and the availability of financing. In addition, assuming discovery of an economic mine or pit, depending on the type of mining operation involved, many years may elapse before commercial operations commence. Accordingly, there can be no assurances that the Company's current programs will result in any new commercial mining operations or yield new reserves to replace and/or expand current reserves.

Dependence on Key Personnel

The Company is dependent on a relatively small number of key employees, the loss of any of whom could have an adverse effect on its operations. The Company currently does not have key person insurance on these individuals.

Operational Risks (continued)

Licenses and Permits

The Company requires licenses and permits from various governmental authorities. The Company believes that it holds all necessary licenses and permits under applicable laws and regulations in respect of its properties and that it is presently complying in all material respects with the terms of such licenses and permits. Such licenses and permits, however, are subject to change in various circumstances. There can be no guarantee that the Company will be able to obtain or maintain all necessary licenses and permits that may be required to explore and develop its properties, commence construction or operation of mining facilities and properties under exploration or development or to maintain continued operations that economically justify the cost.

Competition

The mineral exploration and mining business is competitive in all of its phases. The Company competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than the Company, in the search for and the acquisition of attractive mineral properties. The Company's ability to acquire royalties or properties in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for mineral exploration. There is no assurance that the Company will continue to be able to compete successfully with its competitors in acquiring such properties or prospects.

Cash Cost of Gold Production

The Company's cash operating cost to produce an ounce of gold are dependent on a number of factors including the grade of reserves, recovery and plant throughput. In the future, the actual performance of the Company may differ from the estimated performance. As these factors are beyond the Company's control, there can be no assurance that the Company's cash operating cost will continue at historical levels.

Title Matters

While the Company has no reason to believe that the existence and extent of any mining property in which it has a participating interest is in doubt, title to mining properties is subject to potential claims by third parties. The failure to comply with all applicable laws and regulations, including failure to pay taxes and carry out and file assessment work, may invalidate title to portions of the properties where the mineral rights are not held by the Company.

Outside Contractor Risk

A significant portion of the Company's operations in Niger will continue to be conducted by outside contractors. As a result, the Company's operations in Niger will be subject to a number of risks, some of which will be outside the Company's control, including:

- Negotiating agreements with contractors on acceptable terms;
- Inability to replace a contractor and its operating equipment in the event that either party terminates the agreement;
- Reduced control over such aspects of operations that are the responsibility of the contractor;
- Failure of a contractor to perform under its agreement with the Company;
- Interruption of operations in the event that a contractor ceases its business due to insolvency or other unforeseen events;
- Failure of a contractor to comply with applicable legal and regulatory requirements, to the extent that it is responsible for such compliance; and
- Problems of a contractor with managing its workforce, labour unrest or other employment issues.

Operational Risks (continued)

Outside Contractor Risk (continued)

In addition, the Company may incur liability to third parties as a result of the actions of a contractor. The occurrence of one or more of these risks could have a material adverse effect on the Company's business, results of operations and financial condition.

Safety and Other Hazards

The mining industry is characterized by significant safety risks. To minimize these risks, the Company provides training and awareness programs to its employees to continuously improve work practices and the work environment.

Political Risks

The Company believes that governments in Niger, Burkina Faso and Guinea support the development of their natural resources by foreign companies. There is no assurance, however, that future political and economic condition in these and other countries in which the Company has exploration properties and royalties payable will not result in their governments adopting different policies respecting foreign ownership of mineral resources, taxation, rates of exchange, environmental protection, labour relations, repatriation of income or return of capital. The possibility that a future government in any of these countries may adopt substantially different policies, which might extend to the expropriation of assets, cannot be ruled out.

Environmental Risks and Hazards

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which they operate. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. Environmental hazards which are unknown to the Company at present and which have been caused by previous or existing owners or operations of the properties may exist on the Company's properties. Failure to comply with applicable environmental laws and regulations may result in enforcement actions thereunder and may include corrective measures that require capital expenditures or remedial actions. There is no assurance that future changes in environmental laws and regulations and permits governing operations and activities of mining companies, if any, will not materially adversely affect the Company's operations or result in substantial costs and liabilities to the Company in the future.

Litigation

All industries, including the mining industry, are subject to legal claims, with and without merit. Semafo has in the past been, currently is and may in the future be, involved in various legal proceedings. While the Company believes it is unlikely that the final outcome of these legal proceedings will have a material adverse effect on the financial position or results of operations, defence costs will be incurred, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding will not have a material adverse effect on the Company's future cash flow, results of operations or financial condition.

9. Quarterly Information

(unaudited, in accordance with Canadian GAAP)

SUMMARY	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	Year 2008	First quarter 2007	Second quarter 2007	Third quarter 2007	Fourth quarter 2007	Year 2007
Operating Data										
Gold ounces produced	28,800	54,500	55,300	56,800	**195,400**	29,000	30,200	20,500	26,700	**106,400**
Gold ounces sold	28,200	49,600	59,200	61,000	**198,000**	28,100	27,500	24,000	25,700	**105,300**
Results and Financial Situation (in thousands $, except for amounts per share)										
Revenue- Gold sales	25,540	44,826	51,147	48,398	**169,911**	18,576	18,136	16,314	21,044	**74,070**
Operating income (loss)	2,801	13,822	11,959	4,526	**33,108**	70	(2,039)	(3,910)	857	**(5,022)**
Net income (loss)	12,502	11,681	11,366	3,980	**39,529**	(3,233)	(2,083)	(10,317)	(7,477)	**(23,110)**
Net income (loss) per share, basic and diluted	0.06	0.05	0.06	0.02	**0.19**	(0.02)	(0.01)	(0.05)	(0.04)	**(0.12)**
Cash flows from operating activities[1]	6,143	19,304	20,068	10,824	**56,339**	3,871	1,591	859	3,924	**10,245**
Balance Sheet										
Cash and cash equivalents	15,526	11,909	11,344	23,442	**23,442**	56,208	43,850	26,200	30,044	**30,044**
Total assets	290,346	296,155	302,140	314,673	**314,673**	209,622	225,586	232,678	272,238	**272,238**
Total long-term debt (including short-term portion)	64,132	61,797	60,740	60,466	**60,466**	26,199	41,794	50,964	60,964	**60,964**

1 Cash flow from operating activities excludes changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment.

9. Quarterly Information (continued)

(unaudited, in accordance with Canadian GAAP)

	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	**Year 2008**	First quarter 2007	Second quarter 2007	Third quarter 2007	Fourth quarter 2007	**Year 2007**
CONSOLIDATED										
Operating Data										
Gold ounces produced	28,800	54,500	55,300	56,800	**195,400**	29,000	30,200	20,500	26,700	**106,400**
Gold ounces sold	28,200	49,600	59,200	61,000	**198,000**	28,100	27,500	24,000	25,700	**105,300**
Financial Data (in thousands of dollars)										
Revenues – Gold sales	25,540	44,826	51,147	48,398	**169,911**	18,576	18,136	16,314	21,044	**74,070**
Mining operations expenses	17,129	22,582	28,119	32,846	**100,676**	13,479	14,749	14,901	14,428	**57,557**
Amortization	3,391	5,909	8,820	7,325	**25,445**	3,164	3,146	3,103	2,911	**12,324**
Administration	2,151	2,424	2,161	3,514	**10,250**	1,807	2,215	2,177	2,791	**8,990**
Accretion expense of asset retirement obligations for property, plant and equipment	68	89	88	187	**432**	56	65	43	57	**221**
Operating Income (loss)	**2,801**	**13,822**	**11,959**	**4,526**	**33,108**	**70**	**(2,039)**	**(3,910)**	**857**	**(5,022)**
Statistics ($)										
Average selling price (per ounce)	906	904	864	793	**858**	661	659	680	819	**703**
Cash operating cost (per ounce produced)	528	394	456	495	**461**	450	473	504	568	**497**
Cash operating cost (per tonne processed)	27	35	35	33	**33**	23	28	27	25	**26**
Total cash cost (per ounce sold)	607	455	475	540	**508**	480	517	514	626	**534**
Amortization (per ounce sold)	119	118	148	120	**128**	111	113	128	111	**116**
MANA										
Operating Data										
Ore mined (tonnes)	168,500	176,900	187,200	369,500	**902,100**	-	-	-	-	**-**
Ore processed (tonnes)	41,700	150,200	228,600	353,200	**773,700**	-	-	-	-	**-**
Head grade (g/t)	2.29	4.18	4.32	3.10	**3.62**	-	-	-	-	**-**
Recovery (%)	94	92	93	93	**93**	-	-	-	-	**-**
Gold ounces produced	100	17,200	26,800	29,900	**74,000**	-	-	-	-	**-**
Gold ounces sold	-	11,800	30,500	31,600	**73,900**	-	-	-	-	**-**
Financial Data (in thousands of dollars)							-	-	-	**-**
Revenues – Gold sales	-	10,597	26,471	24,914	**61,982**	-	-	-	-	**-**
Mining operations expenses	-	4,945	11,716	14,026	**30,687**	-	-	-	-	**-**
Amortization	-	1,569	4,923	5,230	**11,722**	-	-	-	-	**-**
Administration	-	184	292	158	**634**	-	-	-	-	**-**
Accretion expense of asset retirement obligations for property, plant and equipment	-	21	20	20	**61**	-	-	-	-	**-**
Segment Operating Income	-	3,878	9,520	5,480	**18,878**	**-**	**-**	**-**	**-**	**-**
Statistics ($)						-	-	-	-	**-**
Average selling price (per ounce)	-	898	868	788	**839**	-	-	-	-	**-**
Cash operating cost (per ounce produced)	-	367	358	418	**384**	-	-	-	-	**-**
Cash operating cost (per tonne processed)	-	42	42	35	**41**	-	-	-	-	**-**
Total cash cost (per ounce sold)	-	419	384	443	**415**	-	-	-	-	**-**
Amortization (per ounce sold)	-	133	161	166	**159**	-	-	-	-	**-**

9. Quarterly Information (continued)

(unaudited, in accordance with Canadian GAAP)

	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008	Year 2008	First quarter 2007	Second quarter 2007	Third quarter 2007	Fourth quarter 2007	Year 2007
SAMIRA HILL										
Operating Data										
Ore mined (tonnes)	393,600	342,300	329,500	352,700	**1,418,100**	362,200	346,000	411,000	475,800	**1,595,000**
Ore processed (tonnes)	404,000	319,700	371,800	425,900	**1,521,400**	396,400	363,700	329,700	420,700	**1,510,500**
Head grade (g/t)	1.91	2.17	1.66	1.52	**1.80**	1.86	2.04	1.99	2.06	**1.99**
Recovery (%)	66	88	84	80	**79**	84	89	84	77	**83**
Gold ounces produced	16,300	19,800	16,600	17,000	**69,700**	20,400	21,600	17,300	20,000	**79,300**
Gold ounces sold	15,300	20,600	16,600	18,500	**71,000**	20,200	18,300	19,300	20,400	**78,200**
Financial Data ($,000)										
Revenues – Gold sales	13,918	18,138	14,664	14,914	**61,634**	13,325	12,104	13,167	16,674	**55,270**
Mining operations expenses	9,869	11,094	10,737	12,653	**44,353**	9,673	7,650	8,941	10,231	**36,495**
Amortization	1,718	2,139	2,077	1,561	**7,495**	2,343	2,041	2,051	2,346	**8,781**
Administration	188	443	408	386	**1,425**	184	341	252	505	**1,282**
Accretion expense of asset retirement obligations for property, plant and equipment	37	37	37	37	**148**	20	20	20	65	**125**
Segment Operating Income	**2,106**	**4,425**	**1,405**	**277**	**8,213**	**1,105**	**2,052**	**1,903**	**3,527**	**8,587**
Statistics ($)										
Average selling price (per ounce)	910	880	883	806	**868**	660	661	682	817	**707**
Cash operating cost (per ounce produced)	586	474	608	641	**572**	431	373	440	462	**425**
Cash operating cost (per tonne processed)	24	29	27	26	**26**	21	22	24	22	**22**
Total cash cost (per ounce sold)	645	539	647	684	**625**	479	418	463	502	**467**
Amortization (per ounce sold)	112	104	125	84	**106**	116	112	106	115	**112**
KINIERO										
Operating Data										
Ore mined (tonnes)	164,900	164,700	92,200	151,500	**573,300**	108,100	119,100	64,000	93,300	**384,500**
Ore processed (tonnes)	148,300	143,900	116,500	150,200	**558,900**	140,800	145,000	48,200	131,100	**465,100**
Head grade (g/t)	2.81	4.08	3.43	2.61	**3.24**	2.09	2.03	2.02	1.84	**1.99**
Recovery (%)	95	94	91	87	**91**	91	91	96	92	**92**
Gold ounces produced	12,400	17,500	11,900	9,900	**51,700**	8,600	8,600	3,200	6,700	**27,100**
Gold ounces sold	12,900	17,200	12,100	10,900	**53,100**	7,900	9,200	4,700	5,300	**27,100**
Financial Data ($,000)										
Revenues – Gold sales	11,622	16,091	10,012	8,570	**46,295**	5,251	6,032	3,147	4,370	**18,800**
Mining operations expenses	7,260	6,543	5,666	6,167	**25,636**	3,806	7,099	5,960	4,197	**21,062**
Amortization	1,640	2,168	1,788	503	**6,099**	789	1,071	1,015	516	**3,391**
Administration	330	198	169	131	**828**	125	249	640	707	**1,721**
Accretion expense of asset retirement obligations for property, plant and equipment	31	31	31	130	**223**	36	45	23	(8)	**96**
Segment Operating Income (loss)	**2,361**	**7,151**	**2,358**	**1,639**	**13,509**	**495**	**(2,432)**	**(4,491)**	**(1,042)**	**(7,470)**
Statistics ($)										
Average selling price (per ounce)	901	935	827	786	**872**	665	656	670	825	**694**
Cash operating cost (per ounce produced)	451	331	466	488	**421**	498	726	851	882	**707**
Cash operating cost (per tonne processed)	37	40	48	32	**39**	31	43	53	45	**41**
Total cash cost (per ounce sold)	563	380	468	566	**483**	481	713	720	1,131	**729**
Amortization (per ounce sold)	127	126	148	46	**115**	100	116	216	97	**125**

10. Fourth Quarter Results

During the fourth quarter of 2008, gold production totalled 56,800 ounces at a cash operating cost of $495 per ounce, compared with 26,700 ounces at a cash operating cost of $568 per ounce during the same period in 2007. This increase in gold production and the decrease in cash operating cost are primarily due to the start-up of the Mana mine and the successful return to profitability of the Kiniero mine.

For the fourth quarter of 2008, gold sales totalled $48,398,000, representing gold sales of 61,000 ounces at an average price of $793 per ounce. During the same period in 2007, gold sales totalled $21,044,000, representing gold sales of 25,700 ounces at an average price of $819 per ounce. The 3% decrease in the average price is the result of the decreased price of gold.

For the fourth quarter of 2008, the net income amounted to $3,980,000, compared to a net loss of $7,477,000 for the same period in 2007. This increase in net income is primarily due to higher gold prices, the start-up of the Mana mine and the successful return to profitability of the Kiniero mine.

11. Information on Outstanding Shares

As at March 17, 2009, Semafo's share capital is comprised of 232,711,435 common shares issued and outstanding. Moreover, 1,800,000 warrants were outstanding. These warrants expire between July 2011 and February 2012.

The Company has a stock option plan for its employees, officers, consultants and directors and those of its subsidiaries. The plan provides for the grant of non-transferable options for the purchase of common shares. As at March 17, 2009, stock options allowing its holder to purchase 7,197,000 common shares were outstanding.

12. Additional Information

Exchange rates are as follows:

CA $ / US $	2008	2007
March 31 (closing)	**1.0279**	1.1529
June 30 (closing)	**1.0186**	1.0634
September 30 (closing)	**1.0599**	0.9963
December 31 (closing)	**1.2246**	0.9881
Fourth quarter (average)	**1.2120**	0.9801
Year (average)	**1.0667**	1.0732

13. International Financial Reporting Standards- Changeover plan

In February 2008 the Canadian Accounting Standards Board (AcSB) confirmed that the use of IFRS would be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. We have established a changeover plan to adopt IFRS by 2011. An implementation team has been created. The implementation team has started the process of assessing accounting policy choices and elections that are allowed under IFRS. We are also assessing the impact of the conversion on our business activities including the effect on information technology and data systems, internal controls over financial reporting and disclosure controls. We will continually review and adjust our changeover plan to ensure our implementation process properly addresses the key elements of the plan.

14. Disclosure Controls and Procedures

In accordance with Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the Company's disclosure controls and procedures (DC&P) and its internal control over financial reporting (ICFR) was conducted. Based on this evaluation, the Chief Executive Officer, and the Chief Financial Officer have concluded that DC&P and ICFR were effective as of the year ended December 31, 2008, and that, as a result, ICFR design provides reasonable assurance that material information relating to the Company, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared, and the information that the Company must present in its annual documents, its interim documents or in other documents it files or submits under securities regulations is recorded, processed, condensed and presented within the times frames prescribed by this legislation. Furthermore, ICFR design provides reasonable assurance that the Company's financial information is reliable and that its financial statements have been prepared, for the purpose of publishing financial information, in accordance with the Company's GAAP. Lastly, no changes to the ICFR that have had or are likely to have a significant effect on this control mechanism were identified by management during the accounting period commencing on October 1, 2008 and ending on December 31, 2008.

15. Non-GAAP Measures

Throughout this document, the Company has provided measures prepared according to Canadian GAAP, as well as some non-GAAP performance measures. Because the non-GAAP performance measures do not have any standardized meaning prescribed by GAAP, they may not be comparable to similar measures presented by other companies. The Company provides these non-GAAP measures as they may be used by some investors to evaluate the Company's performance. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. The Company has defined the non-GAAP measures below and reconciled them to reported GAAP measures.

Cash Operating Cost

A reconciliation of cash operating cost calculated in accordance with the Gold Institute Standard to the operating costs is included in the following table:

				2008
	Mana	Samira Hill	Kiniero	Total
Gold ounces produced	**74,000**	**69,700**	**51,700**	**195,400**
(In thousands of dollars)				
Operating costs (relating to ounces sold)	**30,687**	**44,353**	**25,636**	**100,676**
Royalties and selling expenses	**(2,238)**	**(3,874)**	**(2,768)**	**(8,880)**
Effects of inventory adjustments	**(27)**	**(596)**	**(1,105)**	**(1,728)**
Operating costs (relating to ounces produced)	**28,422**	**39,883**	**21,763**	**90,068**
Cash operating cost (per ounce produced)	**384**	**572**	**421**	**461**

				2007
	Mana	Samira Hill	Kiniero	Total
Gold ounces produced	-	79,300	27,100	106,400
(In thousands of dollars)				
Operating costs (relating to ounces sold)	-	36,495	21,062	57,557
Royalties and selling expenses	-	(3,439)	(1,177)	(4,616)
Inventory write-down variation	-	-	54	54
Fixed expenses incurred during the temporary shutdown	-	-	(1,373)	(1,373)
Effects of inventory adjustments	-	679	607	1,286
Operating costs (relating to ounces produced)	-	33,735	19,173	52,908
Cash operating cost (per ounce produced)	-	425	707	497

16. Additional Information and Continuous Disclosure

This MD&A has been prepared as of March 17, 2009. Additional information on the Company is available through regular filings of press releases, financial statements and its Annual Information Form on SEDAR (www.sedar.com).

17. Forward-Looking Statements

This MD&A contains forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding expectations of the Company as to the market price of gold, strategic plans, future commercial production, production targets, timetables, mining operating expenses, capital expenditures, and mineral reserve and resource estimates. Forward-looking statements involve known and unknown risks and uncertainties and accordingly, actual results and future events could differ materially from those anticipated in such statements. Factors that could cause future results or events to differ materially from current expectations expressed or implied by the forward-looking statements include, but are not limited to, fluctuations in the market price of precious metals, mining industry risks, uncertainty as to calculation of mineral reserves and resources, risks related to hedging strategies, risks of delays in construction, requirements of additional financing and other risks described in this MD&A and in the Company's other documents filed from time to time with Canadian securities regulatory authorities. Although the Company is of the opinion that these forward-looking statements are based on reasonable assumptions, those assumptions may prove to be incorrect. Accordingly, readers should not place undue reliance on forward-looking statements. Readers can find further information with respect to risks in the Annual Information Form of the Company and other filings of the Company with Canadian securities regulatory authorities available at www.sedar.com . The Company disclaims any obligation to update or revise these forward-looking statements, except as required by applicable law.

Management's Statement of Responsibility

The Consolidated Financial Statements of the Company and all information in this report are the responsibility of management and have been approved by the Board of Directors. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles, which recognize the necessity of relying on some best estimates and informed judgments. All financial information in this report is consistent with the information in the Consolidated Financial Statements.

The Company maintains appropriate systems of internal control to give reasonable assurance that assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable information for the timely and accurate preparation of financial statements.

PricewaterhouseCoopers LLP, Chartered Accountants, are appointed by the shareholders and conducted an audit on the Company's financial statements. Their report is included herein.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is comprised entirely of independent directors and meets annually with management and with the Company's external auditors to discuss the results of their audit examination and to review issues related thereto. The external auditors have full access to the Audit Committee with and without the presence of management. The Audit Committee reviews the Consolidated Financial Statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors.

Benoit La Salle
President and Chief Executive Officer

Martin Milette
Chief Financial Officer

Auditors' Report

To the Shareholders
of Semafo Inc.

We have audited the consolidated balance sheets of Semafo Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive income (loss), deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP [1]

Montreal, Canada
March 17, 2008

[1] Chartered accountant auditor permit No. 14707

Consolidated Balance Sheets
As at December 31, 2008 and 2007

(expressed in thousands of U.S. dollars)

	2008 $	2007 $
Assets		
Current assets		
Cash and cash equivalents	23,442	30,044
Restricted cash (note 8)	1,250	7,000
Accounts receivable	5,067	6,426
Inventories (note 4)	49,152	28,810
Other short-term assets (note 5)	3,546	5,470
	82,457	77,750
Restricted cash (note 8)	4,050	1,550
Property, plant and equipment (note 6)	202,980	188,916
Investment and other assets (note 7)	25,186	4,022
	314,673	272,238
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	28,843	21,685
Current portion of long-term debt (note 8)	22,390	15,637
Current portion of fair value of derivative financial instruments (note 14)	15,020	22,243
	66,253	59,565
Long-term debt (note 8)	38,076	45,327
Fair value of derivative financial instruments (note 14)	-	16,389
Advances payable (note 9)	8,890	10,195
Asset retirement obligations for property, plant and equipment (note 10)	4,846	4,408
Future income taxes (note 15)	2,288	-
	120,353	135,884
Shareholders' Equity		
Share capital (note 11)	293,910	275,682
Contributed surplus (note 12)	4,797	3,022
Deficit	(104,387)	(142,600)
Accumulated other comprehensive income (note 13)	-	250
	194,320	136,354
	314,673	272,238

Approved by the board of directors,

Jean Lamarre, Director

Benoit La Salle, Director

Consolidated Statements of Deficit and Comprehensive Income

For the years ended December 31, 2008 and 2007

(expressed in thousands of U.S. dollars)

Consolidated Deficit

	2008 $	2007 $
Balance – beginning of year		
Balance previously reported	(142,600)	(75,292)
Accounting change		
• Stripping costs	-	(6,455)
Restated balance	(142,600)	(81,747)
Accounting changes – financial instruments		
• Gold sales contracts	-	(35,770)
• Deferred financing costs	-	(55)
Share issue expenses	(1,316)	(1,918)
Net income (loss) for the year	39,529	(23,110)
Balance – end of year	(104,387)	(142,600)

Consolidated Comprehensive Income

	2008 $	2007 $
Net income (loss) for the year	39,529	(23,110)
Other components of comprehensive income		
• Net variation on the latent gain on available-for-sale financial assets (note 13)	(250)	(119)
Comprehensive income	39,279	(23,229)

Consolidated Statements of Operations

For the years ended December 31, 2008 and 2007

(expressed in thousands of U.S. dollars)

	2008 $	2007 $
Revenue – Gold sales	169,911	74,070
Expenses		
Mining operations	100,676	57,557
Amortization of property, plant and equipment	25,445	12,324
Administration	10,250	8,990
Accretion expense of asset retirement obligations for property, plant and equipment (notes 10 and 18 b)	432	221
	136,803	79,092
Operating income (loss)	33,108	(5,022)
Interest, financing fees and other income	(638)	(1,761)
Interest on long-term debt	4,621	1,908
Stock-based compensation	1,186	1,357
Change to the fair value of derivative financial instruments (note 14)	5,077	17,923
Gain on disposal of investment in subsidiaries (note 6 c)	(17,849)	-
Loss on disposal of portfolio investments (note 5)	317	-
Foreign exchange gain	(1,423)	(1,339)
Net income (loss) before taxes	41,817	(23,110)
Future income tax expense	(2,288)	-
Net income (loss) for the year	39,529	(23,110)
Basic and diluted net income (loss) per share (note 16)	0.19	(0.12)

Consolidated Statements of Cash Flows

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

	2008 $	2007 $
Cash flows from		
Operating activities		
Net income (loss) for the year	39,529	(23,110)
Adjustment for :		
Change to fair value of derivative financial instruments	5,077	17,923
Loss on disposal of investment in portfolio investments	317	-
Amortization of property, plant and equipment	25,445	12,324
Amortization of stripping costs	452	-
Stock-based compensation	1,186	1,357
Accretion expense of asset retirement obligations	432	221
Amortization of deferred transaction costs	767	460
Gain on disposal of investment in subsidiaries	(17,849)	-
Unrealized foreign exchange loss (gain)	(1,305)	1,070
Future income taxes	2,288	-
	56,339	10,245
Changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment (note 18 a)	(9,939)	(9,444)
	46,400	801
Financing activities		
Reimbursement of long-term debt	(7,768)	(5,536)
Term facility, net of transaction costs	4,250	39,564
Issuance of share capital	18,817	26,461
Share issue expenses	(1,316)	(1,918)
	13,983	58,571
Investing activities		
Additions to property, plant and equipment	(41,093)	(85,245)
Disposal of portfolio investments	702	-
Acquisition of financial instruments	-	(1,000)
Financial instruments settled	(29,844)	(18,388)
Decrease (increase) in restricted cash	3,250	(7,300)
	(66,985)	(111,933)
Change in cash and cash equivalents during the year	(6,602)	(52,561)
Cash and cash equivalents – beginning of year	30,044	82,605
Cash and cash equivalents – end of year	23,442	30,044

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

1 Incorporation and nature of activities

SEMAFO inc. (the « company ») was incorporated under Part IA of the Quebec Companies Act.

The company, its subsidiaries and its joint venture are engaged in gold mining and related activities, including exploration, development and operations. These activities are conducted in West Africa. The company and its subsidiaries presently own and operate three gold mines in Burkina Faso, Niger and Guinea. The operating results of the Mana project in Burkina Faso were capitalized to assets under construction up to the start of the commercial production on April 1, 2008. Since that date, the operating results have been recognized in the statements of operations.

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

2 Significant accounting policies

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

Basis of consolidation

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

Use of estimates

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

Cash and cash equivalents

Cash and cash equivalents are classified as held for trading and are valued at their fair market value. Cash and cash equivalents include all cash on hand and balances with banks as well as all highly liquid short-term investments with original maturities of three months or less.

Portfolio investments

Portfolio investments are classified as assets available for sale. They are evaluated at their fair market value and the gains/losses resulting from the evaluation at the end of each period are recorded as comprehensive income. At the time of a sale or a permanent decline in value of portfolio investments, the gains or losses resulting from these transactions and events are recorded in net earnings.

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

2 Significant accounting policies (continued)

Inventories

Gold (doré bars and gold in circuit) is valued at the lower of cost and net realizable value. Cost is evaluated using the first-in, first-out method ("FIFO").

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

Property, plant and equipment

i) Property acquisition costs, deferred exploration and development costs

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

ii) Buildings and equipment related to mining production

Buildings and equipment related to mining production are recorded at cost and amortized, net of residual value, using the units of production method over the expected operating life of the mine based on estimated recoverable ounces of gold. However, if the anticipated useful life of the assets is less than the life of the mine, amortization is based on their anticipated useful life.

iii) Rolling stock, mining equipment, communication and computer equipment

Rolling stock, mining equipment, communication and computer equipment are recorded at acquisition cost. Amortization is provided for using the declining balance method at a rate of 30%, with the exception of amortization of the mining equipment, which is calculated according to the hours-of-use method based on its estimated useful life. The amortization expense remains capitalized for mining assets and will be recognized in the consolidated statement of operations gradually as the mining properties are put into production.

iv) Stripping costs incurred in the production phase of a mining operation

The stripping costs are accounted for as variable production costs to be included in the costs of inventory produced during the period in which they are incurred. Stripping costs are capitalized when the stripping activity can be shown to be a betterment of the mineral property.

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

2 Significant accounting policies (continued)

Exploration properties

Exploration properties comprise mining rights and deferred exploration and development expenses on properties at the exploration and development stages and are recorded at acquisition cost or at their fair value in the case of a devaluation caused by an impairment of value.

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

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

Proceeds on the sale of metals are credited to exploration properties 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 exploration properties 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.

Interest is capitalized when it serves to finance acquisitions, projects in the development stages and construction of mining projects. The capitalization ceases as soon as the asset is ready for its intended use. The interest is recognized in the consolidated statement of operations when it is used to finance a project in the exploration stage.

Impairment of long-lived assets

The company periodically values the carrying amount of its long-lived assets 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 long-lived assets is less than their carrying value, a write-down to fair value, determined by using discounted future cash flows, 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 long-lived assets.

Other financial instruments

In the normal course of business, the company uses financial instruments. Effective January 1, 2007, the company adopted Section 3855, "Financial Instruments – Recognition and Measurement", which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other liabilities.

Financial assets and financial liabilities classified as held for trading are required to be measured at fair value, with gains and losses recognized in net earnings.

Financial assets classified as held to maturity, loans and receivables and financial liabilities (other than those held for trading) are required to be measured at amortized cost using the effective interest rate method of amortization.

Available-for-sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in other comprehensive income. Investments in equity instruments classified as available for sale that do not have a quoted market price in an active market should be measured at cost.

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

2 Significant accounting policies (continued)

Other financial instruments (continued)

Following adoption of this Section, the company implemented the following classifications:

- Accounts receivable, other receivables and restricted cash are classified as loans and receivables.
- Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities.
- Deferred transaction costs are recorded as a reduction of long-term debt and amortized according to the effective interest rate method.

Revenue recognition

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

Derivative financial instruments

Derivative financial instruments must be recorded on the balance sheet at fair value, including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract. Changes in the fair values of derivative financial instruments are required to be recognized in net earnings, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of the hedge relationship is required to be recognized in Other comprehensive income. The company chose January 1, 2003 as the transition date for the embedded derivatives, the latest date that could be chosen according to the accounting policy.

Income taxes

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

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

Foreign currency transactions and integrated foreign subsidiaries

The financial statements of integrated foreign operations and transactions denominated in currencies other than the functional currency are translated into the functional currency using the temporal method. Under this method, monetary assets and liabilities in foreign currencies are translated into the functional currency at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates, unless such assets and liabilities are carried at market, in which case, they are translated at the exchange rate in effect at the date of the balance sheet. Revenues and expenses denominated in foreign currencies are translated at the rate of exchange prevailing on each transaction date. Gains and losses on translation are included in the consolidated statement of operations.

Stock-based compensation plan

The company has a stock-based compensation plan, which is described in note 11. The company accounts for all stock-based compensation using the fair value method. This method consists of recording expenses to earnings based on the vesting of the options granted and the counterpart is accounted for in contributed surplus on the balance sheet (note 12). The fair value is calculated based on the Black-Scholes valuation model. When stock options are exercised, any consideration paid is credited to share capital.

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

2 Significant accounting policies (continued)

Asset retirement obligations for property, plant and equipment

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

3 Accounting policy modifications

Effective January 1, 2008, the company adopted five new accounting standards issued by the Canadian Institute of Chartered Accountants ('CICA') addressing general standards of financial statement presentation, inventories and disclosures concerning capital and financial instruments.

a) Section 1400, "General Standards of Financial Statement Presentation"

Section 1400 **"**General Standards of Financial Statement Presentation" modifies the existing section 1400 to include requirements aimed at assessing and disclosing an entity's ability to continue as a going concern and disclosing any material uncertainties that may cast significant doubt upon its entity's ability to continue as a going concern. This section has no impact on the Consolidated Financial Statements.

b) Section 3031 ''Inventories''

Section 3031 "Inventories" prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. This section has no impact on the Consolidated Financial Statements.

c) Section 1535, "Capital Disclosures"

Section 1535 "Capital Disclosures" sets out requirements governing (a) disclosures enabling financial statement users to evaluate an entity's capital management objectives, policies and processes, including qualitative information on capital management objectives, policies and processes and (b) disclosures about whether the entity has complied with these requirements and if it has not complied, the consequences of non-compliance. The disclosure requirements relating to this section are described in note 11.

d) Section 3862, "Financial Instruments – Disclosures"
Section 3863, "Financial Instruments – Presentation"

These sections replace Section 3861, "Financial Instruments – Disclosure and Presentation". They incorporate revisions and enhancements to the existing disclosure requirements and incorporate existing presentation requirements, placing increased emphasis on discussion of risks inherent in the use of financial instruments and how an entity manages such risks. The disclosure requirements relating to this section are described in note 14.

New accounting standard issued but not yet in effect

Section 3064, "Goodwill and Intangible Assets"

In January 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets". This section establishes standards for the recognition, measurement, presentation and the disclosure of goodwill and intangible assets. The primary reason for the issuance of this new standard is to provide clarity on the recognition and measurement of internally developed intangible assets, including research and development costs. Section 3064 reinforces a principle-based approach whereby assets are only accounted for if they meet the definition of an asset and the criteria for such classification the standard was applied prospectively. The company will adopt these requirements effective January 1, 2009. The adoption of these new accounting standards is not expected to have any impact on the Consolidated Financial Statements.

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

4 Inventories

	2008	2007
	$	$
Doré bars	1,865	3,918
Gold in circuit	7,525	1,526
Stockpiles	9,203	6,534
Supplies and spare parts	30,559	16,832
	49,152	28,810

The cost of inventory that was charged to expense represents all mining operations expense and essentially all of the amortization of property, plant and equipment.

5 Other short-term assets

	2008	2007
	$	$
Portfolio investments (note 13)	-	1,269
Prepaid expenses	3,501	4,201
Fair value of derivative financial instruments (note 14)	45	-
	3,546	5,470

In 2008, the company recorded a loss on disposal of portfolio investments of $317,000 following the disposal of shares in a publicly traded company for a cash consideration of $702,000.

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

6 Property, plant and equipment

	2008			2007		
	Cost $	Accumulated depreciation $	Net $	Cost $	Accumulated depreciation $	Net $
Property, plant and equipment – producing properties:						
Property acquisition costs, deferred exploration and development costs	149,225	48,530	100,695	85,710	34,253	51,457
Buildings and equipment related to mining production	100,631	21,445	79,186	34,441	11,439	23,002
Mining equipment	22,674	4,611	18,063	20,812	2,105	18,707
Rolling stock, communication and computer equipment	8,161	5,107	3,054	10,224	4,509	5,715
Stripping costs (a)	1,607	452	1,155	1,329	-	1,329
	282,298	80,145	202,153	152,516	52,306	100,210
Assets under construction (b)	-	-	-	72,123	-	72,123
Exploration properties (c)	827	-	827	16,583	-	16,583
Total property, plant and equipment	283,125	80,145	202,980	241,222	52,306	188,916

a) Reconciliation of capitalized stripping costs is as follows:

	2008 $	2007 $
Balance – beginning of year	1,329	-
Stripping costs capitalized	278	1,329
Cumulated amortization	(452)	-
Balance – end of year	1,155	1,329

b) The Mana Assets under construction in the amount of $84,093,000 were transferred to Property, plant and equipment – producing properties on April 1, 2008 including capitalized interest of $3,165,000, amortized deferred transaction costs of $493,000, commissioning costs of $4,029,000 and amortization of property, plant and equipment – producing properties of $1,415,000.

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

6 Property, plant and equipment (continued)

c) Exploration properties comprise wholly owned mining rights, undivided interests in properties and deferred exploration and development costs.

	2008	2007
	$	$
Burkina Faso (Mana)	-	14,619
Burkina Faso (Datambi)	827	825
Energy – Projects	-	1,139
	827	16,583

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

Costs and deferred exploration and developments costs

	2008	2007
	$	$
Balance – beginning of year	16,583	12,315
Increase in deferred exploration costs related to the projects -		
Mana	834	3,356
Datambi	2	5
Increase in deferred development costs related to the Energy projects	1,012	907
Transfer to property, plant and equipment – producing properties i)	(15,453)	-
Disposal of Energy – Projects ii)	(2,151)	-
Balance – end of year	827	16,583

i) The exploration property assets of the Mana project in the amount of $15,453,000 were transferred to property, plant and equipment – producing properties on April 1, 2008.

ii) In February 2008, the company completed a transaction with Govi High Power Exploration Inc. (“GoviEx”), a private company, aimed at combining the companies’ interests in uranium mining projects (Energy – Projects). As part of this transaction, the company sold all of its shares in its subsidiary Semafo Energy (Barbados) Limited in consideration for approximately 12% of GoviEx’s outstanding shares at the transaction date. This transaction resulted in a non-cash gain of $17,849,000 in the first quarter of 2008.

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

7 Investment and other assets

	2008	2007
	$	$
Investment in GoviEx and a related company of GoviEx, at cost (note 6)	19,600	-
Fair value of derivative financial instruments (note 14)	2,020	910
Other	3,566	3,112
	25,186	4,022

8 Long-term debt

Long-term debt consists of the following:

	2008	2007
	$	$
Loan of $1,615,000, repaid in full on June 15, 2008	-	268
Bank loan of $12,500,000, bearing interest at 3.00% over LIBOR payable semi-annually, principal repayable in ten equal semi-annual installments starting April 1, 2005, secured by a pledge of the shares and assets of a subsidiary. The loan is also secured by a guarantee (limited to 40% of any outstanding amounts on the loan) granted by the company. [1]	2,500	5,000
Bank loan of $20,000,000, bearing interest at 8.50% payable quarterly, principal repayable in thirteen quarterly installments of $1,250,000 starting September 30, 2007 and a final payment of $3,750,000 on December 31, 2010, secured by a pledge of certain assets and by an assignment of claims of certain inter company advances. [2] [6]	12,500	17,500
Term facility of $45,000,000, bearing interest at 7.62% payable quarterly, principal repayable in twelve equal quarterly installments starting March 31, 2009. The facility is secured by a pledge of shares of a subsidiary and a pledge of assets. The facility is also secured by pledges and assignments of bank accounts, inter company advances and other intangibles. [3] [4] [5]	45,000	40,750
Other loans (bearing interest at rates between 8.85% and 10.00%)	2,016	-
Long-term debt	62,016	63,518
Deferred transaction costs	(1,550)	(2,554)
Long-term debt, net of deferred transaction costs	60,466	60,964
Current portion of long-term debt	22,390	15,637
Long-term portion of long-term debt	38,076	45,327

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

8 Long-term debt (continued)

1) The company is required to maintain a cash balance of $1,250,000 in a distinct account until the full repayment of the loan.

2) The company issued 800,000 warrants to the lender. Each warrant entitles its holder to purchase one common share of the company at a price of $1.84 (CA $2.25) on or prior to July 19, 2011. The fair value of the warrants has been established at $656,000.

3) As part of this transaction, the company granted 1,000,000 warrants to the lender. Each warrant entitles its holder to purchase one common share at a price of $1.63 (CA $2.00) on or prior to February 20, 2012. The fair value of the warrants has been established at $800,000.

4) The company was required to maintain a cash balance of $7,000,000 in a distinct account until achievement of specific milestones related to the Mana project which occurred on September 30, 2008. Following this achievement, the company is required to maintain a cash balance of $3,750,000 in a distinct account until the full repayment of the loan.

5) On June 26, 2008, the company entered into an amendment to its $45,000,000 term facility. The amendment involved the capital repayments and interest rate. The company rescheduled $9,000,000 in capital repayments, originally due and payable in three installments of $3,000,000 each on June 30, 2008, September 30, 2008 and December 31, 2008. Following this amendment, 12 quarterly capital repayments of $3,750,000 will be made, with the first payment due and payable on March 31, 2009 instead of 15 payments of $3,000,000 each. In addition, the amendment included converting from a floating rate to a fixed rate of 7.62% until the final maturity date of December 31, 2011.

6) On June 20, 2008, the company entered into an amendment to its $20,000,000 bank loan. The company rescheduled $2,500,000 in capital repayments, originally due and payable in two installments of $1,250,000 each on March 31, 2011 and June 30, 2011. Following this amendment, the following terms came into effect: thirteen quarterly capital repayments of $1,250,000 starting on September 30, 2007 and a final repayment of $3,750,000 on December 31, 2010 instead of 16 payments of $1,250,000 each.

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

	$
2009	23,224
2010	22,903
2011	15,178
2012	178
2013 onwards	533
	62,016

9 Advances payable

	2008 $	2007 $
Advances payable to a minority interest [1]	5,883	7,188
Advance payable to the Republic of Niger [2]	3,007	3,007
	8,890	10,195

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

Under the mining agreement, the Republic of Niger is entitled to receive a reimbursement for its exploration costs previously incurred on the Samira Hill project. These costs will be repaid from the operating surplus of the subsidiary, the owner of the Samira Hill permit.

1) These advances are non-interest bearing and have no specific terms of repayment. From these advances, $5,557,000 ($6,887,000 in 2007) is denominated in Canadian dollars.
2) This advance is non-interest bearing.

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

10 Asset retirement obligations for property, plant and equipment

The company's operations are governed by mining agreements covering the protection of the environment. The company conducts its operations in such a manner as to protect public health and environment. The company will implement progressive measures for rehabilitation work during the operation, closing down and follow-up work upon closing of the mines. Consequently, the company accounted for its asset retirement obligations for property, plant and equipment of the mining sites using cost estimates. Those estimates are subject to changes following modifications to laws and regulations or as new information becomes available.

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

	2008 $	2007 $
Balance – beginning of year	4,408	2,757
Increase due to accretion expense	452	221
New liabilities	773	1,866
Revision of estimated cash flows	(755)	(365)
Liabilities paid off	(32)	(71)
Balance – end of year	4,846	4,408

The estimated undiscounted cash flow required to settle the asset retirement obligations is $6,257,000. Those disbursements are expected to be made during the years from 2009 to 2017. An 8% discount rate was used to evaluate those obligations.

11 Share capital

Authorized

Unlimited number of common shares without par value

Unlimited number of Class "A" preferred shares, no par value, non-voting, non-participating and redeemable at the option of the holder at a price of $0.27 (CA $0.33) per share

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

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

	2008		2007	
	Number (in thousands)	Amount $	Number (in thousands)	Amount $
Common shares				
Balance – beginning of year	213,465	273,622	194,125	246,688
Issued and paid in cash	19,205	18,782	18,500	25,900
Issued for exercises of options	36	51	840	1,034
Balance – end of year	232,706	292,455	213,465	273,622
Warrants				
Balance – beginning of year	3,019	2,060	2,363	1,420
Issued to lender (note 8)	-	-	1,000	800
Expired	(1,219)	(605)	(344)	(160)
Balance – end of year	1,800	1,455	3,019	2,060
Common shares and warrants	234,506	293,910	216,484	275,682

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

11 Share capital (continued)

On December 30, 2008, the company closed a public offering of 19,205,000 common shares at $0.98 (CA $1.20) per share, for gross proceeds of $18,782,000 (CA $23,046,000). Share issue expenses related to this public offering totaled $1,316,000.

On November 13, 2007, the company closed a public offering of 18,500,000 common shares at $1.40 (CA $1.35) per share, for gross proceeds of $25,900,000 (CA $24,975,000). Share issue expenses related to this public offering totaled $1,918,000.

Warrants

Warrants outstanding as at December 31, 2008:

Expiration date	Exercise price	Number of warrants
July 2011	$1.84 (CA $2.25)	800,000
February 2012	$1.63 (CA $2.00)	1,000,000
		1,800,000

The following presents the assumptions used to establish the fair value assigned to the warrants issued in 2007, using the Black-Scholes valuation model:

Warrants issued in February 2007 – issued to lender	
Average dividend per share	0%
Forecasted volatility	40%
Risk-free interest rate	4.01%
Expected life – warrants	5 years
Fair value – warrants (per unit)	$0.80

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

11 Share capital (continued)

Options

The company has a share option plan for its employees, officers, consultants and directors and those of its subsidiaries (the "Plan"). The Plan provides for the grant of non-transferable options for the purchase of common shares. The Board of Directors of the company has the authority to select those employees, officers and directors to whom options will be granted, to determine the terms, limits, restrictions and conditions of the grants of options, to interpret the Plan and make all decisions relating thereto. The option price shall not be lower than the closing price of the company's common shares on the Toronto Stock Exchange on the last trading day before the day on which the option is granted or, if there has been no trading on that day, the closing trading price at the Toronto Stock Exchange on the last day preceding the day the option is granted, on which at least one transaction bearing a regular lot that has been registered. The number of options that may be issued to a person pursuant to the Plan cannot exceed, at all times, 5% of the issued and outstanding shares. The option price is payable in full at the time the option is exercised. The options may be exercised during the option period determined by the Board of Directors, which may vary, but will not exceed ten years from the date of the grant. There are 10,000,000 of the company's common shares which may be issued pursuant to the exercise of share options granted under the Plan. Of this number, 1,570,000 shares were issued as at December 31, 2008 (1,534,000 as at December 31, 2007), leaving a balance of 8,430,000 shares available to be issued under the Plan (2007 – 8,466,000). As at December 31, 2008, the company had issued options, allowing for the subscription of 7,417,000 common shares of its share capital.

A total of 1,800,000 new options were issued to employees, officers, consultants and directors of the company in 2008 (3,375,000 in 2007). These shares were subject to an evaluation and the fair market value of these new options is evaluated at $946,000 (CA $960,000).

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

	2008	2007
Average dividend per share	0%	0%
Forecasted volatility	40%	40%
Risk-free interest rate	3.30%	4.12%
Expected life	5 years	5 years
Fair value – weighted average of options issued	$0.53	$0.62

For the year ended December 31, 2008, the total expense for the stock-based compensation was $1,186,000, compared to $1,357,000 in 2007. The counterpart for those costs was credited to contributed surplus. The cost was calculated according to the Black-Scholes valuation model using the assumptions shown above.

A total of 35,500 options were exercised during 2008 under the Plan for a cash consideration of $35,000 (CA $37,000). An amount of $16,000 from these options has been reclassified from contributed surplus to share capital.

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

11 Share capital (continued)

Options (continued)

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

	2008		2007	
	Number of options (in thousands)	Weighted average exercise price ($)	Number of options (in thousands)	Weighted average exercise price ($)
Balance – beginning of year	6,578	1.97 (CA $1.94)	5,082	1.77 (CA $2.06)
Cancelled or expired	(925)	1.50 (CA $1.84)	(1,039)	2.53 (CA $2.50)
Exercised	(36)	0.86 (CA $1.05)	(840)	0.73 (CA $0.72)
Issued	1,800	1.09 (CA $1.33)	3,375	1.66 (CA $1.64)
Balance – end of year	7,417	1.48 (CA $1.81)	6,578	1.97 (CA $1.94)
Options exercisable – end of year	2,741	1.59 (CA $1.95)	1,591	1.89 (CA $1.87)

	Options outstanding			Options exercisable	
Range of exercise prices	Options outstanding (in thousands)	Average residual life span (in years)	Weighted average exercise price/option ($)	Options exercisable (in thousands)	Weighted average exercise price/option ($)
$0.76 (CA $0.93) to $0.95 (CA $1.16)	870	7.20	0.90 (CA $1.10)	570	0.92 (CA $1.13)
$1.02 (CA $1.25) to $1.14 (CA $1.40)	1,825	9.12	1.09 (CA $1.34)	163	1.07 (CA $1.31)
$1.22 (CA $1.50) to $1.38 (CA $1.69)	1,167	8.63	1.30 (CA $1.59)	329	1.31 (CA $1.60)
$1.43 (CA $1.75) to $1.57 (CA $1.92)	1,225	8.29	1.55 (CA $1.90)	319	1.55 (CA $1.89)
$1.65 (CA $2.02) to $2.33 (CA $2.85)	2,330	7.45	2.06 (CA $2.52)	1,360	2.02 (CA $2.47)
	7,417	8.16	1.48 (CA $1.81)	2,741	1.59 (CA $1.95)

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

11 Share capital (continued)

Capital risk management

Capital is defined as shareholders' equity plus long-term debt, net of cash and cash equivalents.

	As at December 31, 2008 $	As at December 31, 2007 $
Long-term debt	69,356	71,159
Less cash and cash equivalents	23,442	30,044
	45,914	41,115
Shareholders' equity	194,320	136,354
Total capital	240,234	177,469

The company's financial risk management objectives are as follows:

a) Safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders to maintain an optimal capital structure to enhance shareholder value in the long-term.
b) Ensure sufficient capital in order to meet short-term business requirements and pursue the development of its mining projects and operations.
c) Meet external capital requirements on its loans.
d) Maintain an optimal capital structure and reduce the cost of capital.

The company's objectives remain unchanged from 2007.

As a growing business, the company requires extensive capital. The company raises capital, as necessary, to meet the need and take advantage of opportunities and, therefore, does not have a defined numeric target for its capital structure. The company may use financial leveraging in order to maintain a balance of debt over equity.

Based on its credit agreements, the company is required to meet certain financial ratios, including debt to equity and debt service coverage. The company is in compliance with the ratio requirements of its lenders.

12 Contributed surplus

The contributed surplus account is composed of:

	2008 $	2007 $
Balance – beginning of year	3,022	1,978
Exercised options	(16)	(473)
Charges from valuation of options	1,186	1,357
Expired warrants	605	160
Balance – end of year	4,797	3,022

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

13 Accumulated other comprehensive income

	2008 $
Accumulated latent gain on portfolio investments – beginning of year	250
Change in fair value of portfolio investments	(567)
Reclassification to statements of operations : loss on disposal of portfolio investments	317
Accumulated latent loss on portfolio investments – end of year	-

14 Financial instruments

The following table presents a summary as at December 31, 2008 of the company's commitments relating to gold forward contracts:

	2009 (remaining ounces)	$/oz
Gold sales contracts (a)	26,000	375
Gold purchase contracts (c)	(18,000)	993
Gold contracts– net sales commitment	8,000	

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

14 Financial instruments (continued)

Fair market value

The gold sales contracts, gold purchase contracts and put options did not qualify for hedge accounting. Consequently, changes in the fair value of these derivative financial instruments are recognized in net earnings (loss). The company recorded a loss of $5,077,000 in 2008 ($17,923,000 in 2007) following the change in the fair value of derivative financial instruments.

The following table sets forth the changes in the fair value of the derivative instruments accounted for in the consolidated financial statements.

	Asset $	Liability $
Fair value at beginning of year (calculated using a spot market price of $833 per ounce as at December 31, 2007)	910	(38,632)
Financial instruments settled :		
Gold sales contracts (a)	-	30,219
Interest rate swap (b)	-	(375)
Changes to fair value recognized in results	1,155	(6,232)
Fair value at end of year (calculated using a spot market price of $881 per ounce as at December 31, 2008)	2,065	(15,020)
Current portion of derivative financial instruments	45	(15,020)
Long-term portion of derivative financial instruments	2,020	-

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

The investment in GoviEx is valued at cost which is a reasonable estimate of its fair value.

The carrying value of long-term debt bearing interest at fixed rates is $59,516,000 and the fair market value of these debts is estimated at $58,076,000.

It is impossible, without considerable effort, to evaluate the fair value of advances payable as they are non-interest bearing and have no fixed terms of repayment.

a) Gold sales contracts

During 2008, the company proceeded to the settlement of gold sales contracts, representing 57,000 ounces for a total amount of $30,219,000 (62,000 ounces for a total amount of $19,057,000 in 2007).

b) Interest-rate swap

The gold sales contracts include an interest rate swap on a nominal amount corresponding to the ounces by the contractual price as disclosed above (a). Pursuant to the swap agreement, the company is committed to pay the difference between the LIBOR USD three (3) months and the GOFO three (3) months interest rate, whereas the counterparty is committed to paying a fixed interest rate of 1% per annum.

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

14 Financial instruments (continued)

c) Gold purchase contracts

In 2008, the company purchased gold futures contracts to apply against its gold delivery commitments from February 2008 to June 2009. In so doing, as at December 31, 2008, the company limited the potential accounting loss arising from a revaluation of its financial instruments with respect to these 18,000 ounces of gold.

d) Put options

In 2007, the company has implemented a 55,000 ounces gold price put protection program for the Mana mine, which was a requirement under the $45,000,000 debt facility (note 8).

The company purchased put options allowing it to price-protect at a minimum price of $600 per ounce for 55,000 ounces of gold broken down on a monthly basis as follows: 5,000 ounces in 2009, 5,000 ounces in 2010 and 45,000 ounces in 2011. Consequently, the entire production will be available to be sold at spot prices and fully exposed to any upward increase in the gold price with the downward price protected at $600 per ounce on 55,000 ounces.

The cost of the options totalled $1,000,000 in 2007 and is valued at $2,020,000 on December 31, 2008.

Financial risk management

The company's activities expose it to a variety of financial risks, including credit risk, foreign exchange risk, interest rate risk, liquidity risk and gold price risk.

Credit risk

Financial instruments that potentially subject the company to credit risk consist of cash and cash equivalents, restricted cash and accounts receivable. The company offsets these risks by depositing its cash and cash equivalents, including restricted cash, with high credit quality financial institutions. The company only transacts with highly rated counterparties for the sale of gold. In addition, the company has receivables from different governments in West Africa and from a sales agent.

Foreign exchange risk

The operations of the company in West Africa are subject to currency fluctuations and such fluctuations may materially affect the financial position and results of the company. Gold is currently sold in US dollars and although the majority of the costs of the company are also in US dollars, certain costs are incurred in other currencies. The appreciation of non-US dollar currencies against the US dollar can increase the cost of exploration and production in US dollar terms. The company does not use derivatives to mitigate its exposure to foreign currency risk.

The company's balance sheet contains balances of cash and cash equivalents, accounts receivable, other short-term assets, as well as accounts payable and accrued liabilities, long-term debt and advances payable in currencies other than its reporting currency. The company is thus exposed to a foreign exchange risk. The balances in currencies are as follows as at December 31, 2008:

	US $	CA $	Euro	Other
Cash and cash equivalents and restricted cash	24,334	4,453	498	80
Accounts receivable	3,216	407	952	194
Accounts payable and accrued liabilities	(11,071)	(2,228)	(8,652)	(2,870)
Long-term debt	(60,000)	-	(1,448)	-
Advances payable	(3,333)	(6,805)	-	-
	(46,854)	(4,173)	(8,650)	(2,596)

Assuming that all other variables are constant, a variation of 10% in the Canadian dollar exchange rate would generate an impact of $310,000 on the net income for the year ended December 31, 2008. A variation of 10% in the Euro exchange rate would generate an impact of $1,095,000 on the net income for the year ended December 31, 2008.

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

14 Financial instruments (continued)

Interest rate risk

Current financial assets and financial liabilities are generally not exposed to interest rate risk due to their short-term nature and, or because they are non-interest bearing.

The majority of the company's interest bearing borrowings consist of fixed interest rate debt and are therefore not exposed to interest rate fluctuation and volatility.

The company's gold sales contracts include an interest rate swap, whereby the company pays a floating rate and receives a fixed rate.

The company does not use derivatives to mitigate its exposure to interest rate risk.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at December 31, 2008:

	Between 0 and 6 months $	Between 7 and 12 months $	Between 1 and 4 years $
Accounts payable and accrued liabilities	27,876	967	-
Long-term debt	11,236	11,154	38,076
Gold contracts – covered positions	11,124	-	-
	50,236	12,121	38,076

The company's growth is financed through a combination of the cash flows from operations, borrowing, and the issuance of equity. One of management's primary goals is to maintain an optimal level of liquidity through the active management of assets and liabilities, as well as cash flows.

Gold price risk

Semafo is subject to fluctuations in the market price of gold. Gold production from mining operations and the willingness of third parties, such as central banks, to sell or lease gold affects the supply of gold. Demand for gold can be influenced by economic conditions, gold's attractiveness as an investment vehicle, the strength of the US dollar and local investment currencies. Other factors include the level of interest rates, exchange rates, inflation and political stability. The aggregate effect of these factors is impossible to predict with accuracy. Gold prices are also affected by worldwide production levels. In addition, the price of gold has, on occasion, been subject to very rapid short-term changes due to speculative activities.

In the past, the company entered into gold sales contracts to sell gold at a fixed or capped price on a future delivery date, due to requirements related to project financing terms. When the price of gold rises above the price at which future production has been committed under the company's gold sales contracts, the company may not benefit fully from price increases.

The company established an action plan to eliminate its gold hedge position by the end of June 2009.

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

15 Income taxes

The future income tax balances are summarized as follows:

i) The provision for income taxes presented in these Consolidated Financial Statements is different from what would have resulted from applying the combined Canadian Statutory tax rate as a result of the following:

	2008	2007
	$	$
Net income (loss) before taxes	41,817	(23,110)
Combined federal and provincial income tax		
(2008: 30.90%, 2007: 32.02%)	12,921	(7,400)
Impact of income tax rate on future income tax balances	746	492
Difference in tax rate of foreign subsidiaries	(9,976)	(8,634)
Non taxable portion of capital gain	(1,769)	-
Other	(202)	(313)
Valuation allowance	568	15,855
Recovery of future income tax	2,288	-

ii) Future income tax assets

	2008	2007
Future income tax assets	$	$
Property, plant and equipment	27,000	27,700
Share issue expenses	1,290	2,000
Operating losses carried forward	8,880	7,600
Financial instruments	430	-
Unrealized foreign exchange losses	1,250	-
Asset retirement obligations	1,700	-
Other	200	-
	40,750	37,300
Future income tax liability		
Unrealized foreign exchange gain	(70)	-
Investment	(3,060)	-
Property, plant and equipment	(2,020)	-
	(5,150)	-
Valuation allowance	(37,888)	(37,300)
	2,288	-

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

15 Income taxes (continued)

iii) The company has accumulated non-capital losses for income tax purposes of approximately of $44,033,000 (of which $18,090,000 is taxed at 2.5% for subsidiaries in Barbados and the balance is taxed at a rate of between 26.9% and 35%), which may be carried forward and used to reduce taxable income in future years. These losses may be claimed no later than:

	$
2009	505
2010	524
2011	500
2012	17,134
2013	4,903
2014	1,507
2015	7,027
2016	752
2017	2,643
2027	5,541
2028	2,997
	44,033

iv) The unamortized balance for tax purposes of share issue expenses amounting to approximately $4,800,000 will be deductible over the next four years, ending in 2012.

v) As at December 31, 2008 the company incurred exploration and development expenditures related to its mining assets of approximately $827,000, which are not subject to expiry for fiscal purposes.

16 Net income (loss) per share

	2008 $	2007 $
Net income (loss) for the year	39,529	(23,110)
Average weighted number of outstanding common shares	213,547	196,978
Effect of dilutive stock options	118	395
Average weighted number of outstanding diluted common shares	213,665	197,373
Basic income (loss) per share	0.19	(0.12)
Diluted income (loss) per share	0.19	(0.12)

The diluted income (loss) per share, calculated using the redemption of shares method, is equal to the basic income (loss) per share due to the non-dilutive effect of options.

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

17 Commitments

Royalties

The company is subject to a royalty of 3% of the market value of the gold ounces sold originating from the Mana mine payable to the Republic of Burkina Faso. In 2008, royalties of $1,864,000 were paid (2007 – nil).

The company is subject to a royalty of 5.5% of the market value of the gold ounces sold originating from the Samira Hill mine payable to the Republic of Niger. In 2008, royalties of $3,463,000 were paid (2007 – $3,013,000).

The company is subject to a royalty of 5% of the market value of the gold ounces sold originating from the Kiniero mine payable to the Republic of Guinea. In 2008, royalties of $2,328,000 were paid (2007 – $943,000).

18 Financial information included in consolidated statements of cash flows

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

	2008 $	2007 $
Accounts receivable	1,359	(5,923)
Prepaid expenses	700	(1,585)
Inventories	(18,670)	(7,250)
Other assets	(454)	(3,055)
Accounts payable and accrued liabilities	7,158	8,440
Settlement of liabilities related to asset retirement obligations for property, plant and equipment	(32)	(71)
	(9,939)	(9,444)

b) Supplemental information on items not affecting cash and cash equivalents

	2008 $	2007 $
Unrealized foreign exchange loss (gain) on advances payable	(1,305)	1,070
Amortization of property, plant and equipment allocated to mining assets or property, plant and equipment	80	134
Amortization of property, plant and equipment allocated to assets under construction	190	1,225
Net effect of amortization of property, plant and equipment allocated to inventories	1,672	12
New asset retirement obligations allocated to property, plant and equipment	773	1,460
Increase in advances payable allocated to property, plant and equipment	-	189
Accretion expense allocated to mining assets or property, plant and equipment	20	-

c) Cash flows related to interest

	2008 $	2007 $
Interest paid during the year	4,983	3,645

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

19 Segmented information

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

2008	Mana Mine, Burkina Faso $	Samira Hill Mine, Niger $	Kiniero Mine, Guinea $	Corporate and others $	Total $
Revenue – Gold sales	61,982	61,634	46,295	-	169,911
Operating expenses	30,687	44,353	25,636	-	100,676
Amortization of property, plant and equipment	11,722	7,495	6,099	129	25,445
Administration	634	1,425	828	7,363	10,250
Accretion expense of asset retirement obligation	61	148	223	-	432
Operating income (loss)	**18,878**	**8,213**	**13,509**	**(7,492)**	**33,108**
Property, plant and equipment	120,126	50,391	31,216	1,247	202,980
Total assets	153,172	73,385	45,563	42,553	314,673

2007	Mana Mine, Burkina Faso $	Samira Hill Mine, Niger $	Kiniero Mine, Guinea $	Corporate and others $	Total $
Revenue – Gold sales	-	55,270	18,800	-	74,070
Operating expenses	-	36,495	21,062	-	57,557
Amortization of property, plant and equipment	-	8,781	3,391	152	12,324
Administration	-	1,282	1,721	5,987	8,990
Accretion expense of asset retirement obligation	-	125	96	-	221
Operating income (loss)	**-**	**8,587**	**(7,470)**	**(6,139)**	**(5,022)**
Property, plant and equipment	101,281	51,859	33,231	2,545	188,916
Total assets	112,447	72,978	47,726	39,087	272,238

20 Comparative figures

Certain comparative data were reclassified to conform to the presentation adopted for the period ended December 31, 2008.