

SEM

Committed...

AFO

TO A BETTER
TOMORROW, TO THE
ENVIRONMENT, TO OUR
HUMAN RESOURCES, TO
INCREASING SHAREHOLDER VALUE,
TO MAKING A SIGNIFICANT CONTRIBUTION
TO THE COMMUNITIES
IN WHICH WE
OPERATE, TO
SUPPORTING OUR
FUTURE GENERATIONS
TO RESPONSIBLE
MINING

Third Quarter

For the three-month period ended September 30, 2008





Management's Discussion and Analysis For the Three-Month Period Ended September 30, 2008

Semafo (the "Company") is a Canadian-based mining company with gold production and exploration activities in West Africa. The Company currently operates 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 three-month period ended September 30, 2008 compared to the corresponding period last year. This MD&A, prepared as of November 10, 2008, is intended to complement and supplement our Consolidated Interim Unaudited Financial Statements. It should be read in conjunction with the MD&A for the period ended December 31, 2007, our Audited Consolidated Annual Financial Statements for the year ended December 31, 2007 and notes thereto, together with our consolidated interim unaudited financial statements and notes thereto for the quarter ended September 30, 2008. Our 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 Interim Unaudited 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 four 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 Interim Unaudited Financial Statements as at September 30, 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

	Three-month period ended September 30		Nine-month period ended September 30	
	2008	2007	2008	2007
Gold ounces produced.....	55,300	20,500	138,600	79,700
Gold ounces sold	59,200	24,000	137,000	79,600
(In thousands of dollars, except amounts per ounce, per tonne and per share)				
Revenues – Gold sales	51,147	16,314	121,513	53,026
Operating costs	28,119	14,901	67,830	43,129
Operating income (loss).....	11,959	(3,910)	28,582	(5,879)
Net income (loss)	11,366	(10,317)	35,549	(15,633)
Basic and diluted net income (loss) per share.....	0.06	(0.05)	0.17	(0.08)
Cash flow from operating activities ¹	20,068	859	45,495	6,309
Average selling price (per ounce)	864	680	887	666
Cash operating cost (per ounce produced) ²	456	504	447	473
Cash operating cost (per tonne processed) ²	35	27	33	26
Total cash cost (per ounce sold)	475	514	495	503

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.

A Word from the CEO

We are pleased to have successfully delivered another solid operational and financial performance during the third quarter.

Operationally, we achieved record production in the third quarter with a total of 55,300 ounces of gold. We expect to maintain this positive trend during the fourth quarter and accordingly, have increased our 2008 annual production guidance from our initial forecast of between 165,000 and 185,000 to between 185,000 and 195,000 ounces of gold.

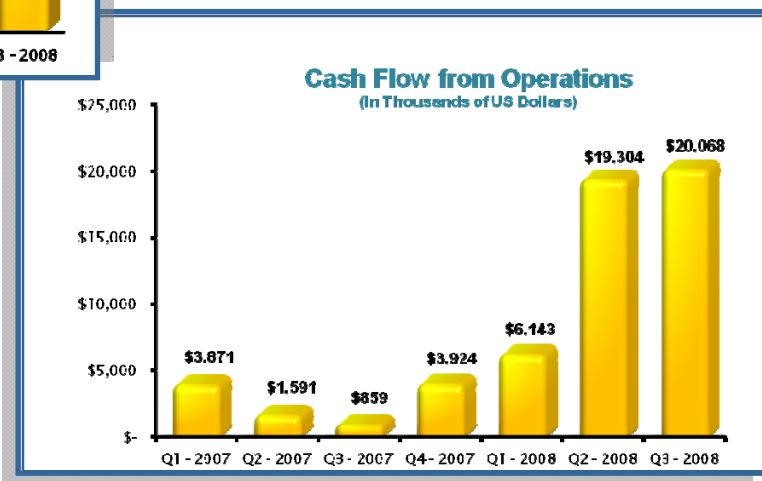
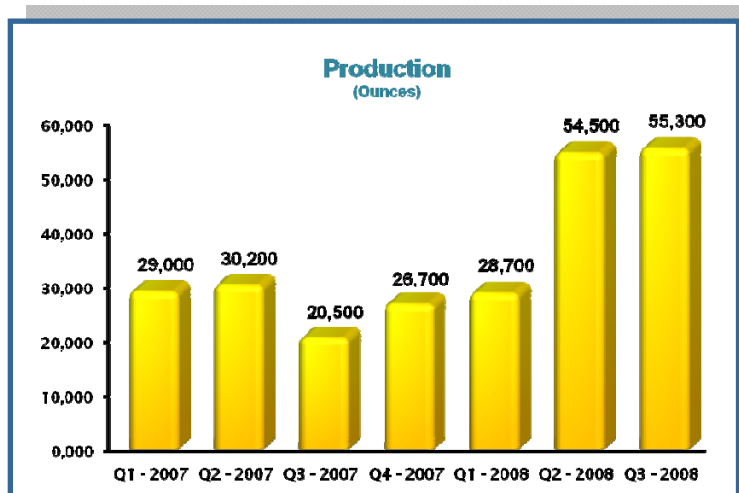
Operating costs increased moderately during the third quarter mainly due to the historically high cost of fuel and reduced head grades. Despite these impediments, Semafco's total cash cost of \$475 per ounce remained below industry average. Given the significant decrease in oil prices during the last month, we expect to realize a reduction in fuel costs moving forward.

Financially, the Company achieved a record cash flow from operations of \$20,068,000 for the quarter. The average gold price during the period was of \$864 per ounce, which resulted in an operating income of \$11,959,000.

At the Mana mine, we successfully completed the commissioning of the new 4,000 tonne-per-day ball mill. This event marked, yet again, an important milestone for the company. From the efficient 14-month construction to the timely start-up and commercial production, Mana's smooth, successful progress is a testimony to the ongoing cooperation and contributions of our valued employees, contractors and suppliers. At Semafco, we are proud to have a highly competent team in place that is committed to the attainment of the Company's objectives and overall success.

The current global economic environment is probably the most challenging that the world has faced in years. While pleased to be well-positioned in such trying times, our priority remains the diligent management and operation of our three gold mines such that they continue to generate significant cash flow.

Semafco remains committed to increase shareholder value via the effective management of our existing assets and the pursuit of opportunities that may arise in West Africa.



THIRD QUARTER 2008 – HIGHLIGHTS

- Gold production of 55,300 ounces, an 170% increase over the same period last year
- Cash operating cost of \$456 per ounce, an improvement of 10% over the same period last year
- Gold sales of \$51,147,000, an increase of 214% over the same period last year
- Operating income of \$11,959,000 compared to an operating loss of \$3,910,000 for the same period in 2007
- Net income of \$11,366,000 or \$0.06 per share compared to a net loss of \$10,317,000 or (\$0.05) per share for the same period last year
- Cash flow from operating activities of \$20,068,000, compared to \$859,000 for the same period last year
- Successful commissioning of the 4,000 tonne-per-day ball mill at Mana mine and achievement of the specific milestones of the credit facility

2008 OBJECTIVES

- ❑ Achieve ongoing, stable production at the Samira Hill and Kiniero gold mines
- ❑ Successful start-up of the Mana mine including the installation of the 4,000 tonne-per-day ball mill
- ❑ Continue the expanded exploration programs initiated in 2007 to increase resource and reserves and ultimately extend mine life
- ❑ Increase gold production by 60% through steady quarterly growth to achieve total annual gold production of between 165,000 and 185,000 ounces

2 Outlook

The Company has increased its 2008 annual production guidance to between 185,000 and 195,000 ounces.

Overall production for the month of October 2008 totalled 19,400 ounces of gold; 10,000 ounces at Mana, 4,900 ounces at Samira Hill and 4,500 ounces at Kiniero.

3 Consolidated Results and Mining Operations

	Three-month period ended September 30			Nine-month period ended September 30		
	2008	2007	Variation	2008	2007	Variation
Operating Highlights						
Gold ounces produced	55,300	20,500	170%	138,600	79,700	74%
Gold ounces sold	59,200	24,000	147%	137,000	79,600	72%
(In thousands of dollars, except amounts per ounce and per tonne)						
Revenues – Gold sales	51,147	16,314	214%	121,513	53,026	129%
Operating costs	28,119	14,901	89%	67,830	43,129	57%
Operating income (loss)	11,959	(3,910)	406%	28,582	(5,879)	586%
Net income (loss)	11,366	(10,317)	210%	35,549	(15,633)	327%
Average selling price (per ounce)	864	680	27%	887	666	33%
Cash operating cost (per ounce produced) ¹	456	504	(10%)	447	473	(5%)
Cash operating cost (per tonne processed) ¹	35	27	30%	33	26	27%
Total cash cost (per ounce sold) ²	475	514	(8%)	495	503	(2%)

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.

Third Quarter 2008 v. Third Quarter 2007

- In 2008, third quarter gold sales totalled \$51,147,000 compared to \$16,314,000 for the same period last year. This 214% increase is due to the 27% increase in the average selling price of gold and the 147% 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 in the third quarter of 2008 to attain \$11,959,000 compared to an operating loss of \$3,910,000 for the third quarter of 2007. This improved operating income result is primarily due to a higher average selling price, which exceeded the increase in operating costs, as well as increased production levels.
- Net income reached \$11,366,000 in the third quarter of 2008 compared to a net loss of \$10,317,000 for the third quarter of 2007. This improved net income result is primarily due to a higher average selling price, which exceeded the increase in operating costs, as well as increased production levels.

First Nine Months of 2008 v. First Nine Months of 2007

- During the first nine months of 2008, gold sales totalled \$121,513,000 compared to \$53,026,000 for the same period last year. This 129% increase is primarily due to the 33% increase in the average selling price of gold and the 72% 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 for the first nine months of 2008 reaching \$28,582,000 compared to an operating loss of \$5,879,000 for the first nine months of 2007. This improved operating income result is primarily due to a higher average selling price, which exceeded the increase in operating costs, as well as increased production levels.
- Net income reached \$35,549,000 for the first nine months of 2008, compared to a net loss of \$15,633,000 for the first nine months of 2007. This increase is mainly due to a higher average realized selling price, which exceeded the increase in operating costs. It also reflects the Mana mine operating results since the commencement of commercial production on April 1, 2008. This increase also takes into consideration the gain on disposal of a subsidiary in the amount of \$17,849,000 and by the increase of \$3,667,000 in unrealized loss following the change to the fair value of derivative financial instruments.

Operating Income by Segment

	Three-month period ended September 30			Nine-month period ended September 30		
	2008	2007	Variation	2008	2007	Variation
(In thousands of dollars)						
Mana Mine, Burkina Faso	9,520	-	-	13,398	-	-
Samira Hill Mine, Niger	1,405	1,903	(26%)	7,936	5,060	57%
Kiniero Mine, Guinea	2,358	(4,491)	153%	11,870	(6,429)	285%
Corporate and others	(1,324)	(1,322)	-	(4,622)	(4,510)	(2%)
Total	11,959	(3,910)	406%	28,582	(5,879)	586%

Mining Operations

Mana, Burkina Faso

	Three-month period ended September 30		Nine-month period ended September 30	
	2008	2007	2008	2007
Operating Data				
Ore mined (tonnes)	187,200	-	532,600	-
Ore processed (tonnes)	228,600	-	420,500	-
Head grade (g/t)	4.32	-	4.08	-
Recovery (%)	93	-	93	-
Gold ounces produced	26,800	-	44,100	-
Gold ounces sold	30,500	-	42,300	-
Financial Data (in thousands of dollars) ³				
Revenues – Gold sales	26,471	-	37,068	-
Mining operations expenses	11,716	-	16,661	-
Amortization	4,923	-	6,492	-
Administration	292	-	476	-
Accretion expense of asset retirement obligations for property, plant and equipment	20	-	41	-
Segment operating income	9,520	-	13,398	-
Statistics (\$) ³				
Average selling price (per ounce)	868	-	876	-
Cash operating cost (per ounce produced) ¹	358	-	361	-
Cash operating cost (per tonne processed) ¹	42	-	42	-
Total cash cost (per ounce sold) ²	384	-	394	-
Amortization (per ounce sold)	161	-	153	-

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.

Third Quarter 2008

- For the third quarter of 2008, a total of 187,200 tonnes of ore and 2,654,000 tonnes of waste material were extracted from the Wona and Nyafé pits, resulting in a stripping ratio of 14:1. This compares to 176,900 tonnes of ore and 2,253,000 tonnes of waste for the second quarter of 2008.
- During the third quarter of 2008, the Company processed 228,600 tonnes of ore at an average grade of 4.32 g/t. Gold production totalled 26,800 ounces. This compares to 150,200 tonnes of ore at an average grade of 4.18 g/t, leading to a production of 17,200 ounces of gold during the second quarter of 2008, clearly showing the successful ramp-up of the plant and the successful commissioning of the 4,000 tpd ball mill.
- Cash operating cost for the quarter was \$358 per ounce.
- The commissioning of the 4,000 tpd ball mill took place during the third quarter of 2008 and the design throughput was reached at the beginning of September. The achievement of specific milestones of the credit facility occurred on September 30, 2008.
- Detail engineering studies are underway to increase plant capacity at Mana in 2009 to reach 6,000 tpd.
- The following table details the operating data pertaining to the ramp up:

	April	May	June	July	August	September
Ore processed (tonnes)	41,300	53,300	55,600	59,100	64,200	105,300
Head grade (g/t)	3.31	3.59	5.40	4.69	5.05	3.67
Recovery (%)	93	91	92	92	95	92
Gold ounces produced	4,300	5,000	7,900	7,800	10,200	8,800
Gold ounces produced including variation of gold in circuit	4,100	5,600	8,900	8,200	9,900	11,400

Mining Operations

Samira Hill, Niger

	Three-month period ended September 30			Nine-month period ended September 30		
	2008	2007	Variation	2008	2007	Variation
Operating Data						
Ore mined (tonnes)	329,500	411,000	(20%)	1,065,400	1,119,200	(5%)
Ore processed (tonnes)	371,800	329,700	13%	1,095,600	1,089,800	1%
Head grade (g/t)	1.66	1.99	(17%)	1.90	1.96	(3%)
Recovery (%)	84	84	-	79	86	(8%)
Gold ounces produced	16,600	17,300	(4%)	52,700	59,300	(11%)
Gold ounces sold	16,600	19,300	(14%)	52,500	57,800	(9%)
Financial Data (in thousands of dollars)						
Revenues – Gold sales	14,664	13,167	11%	46,720	38,597	21%
Mining operations expenses	10,737	8,941	20%	31,700	26,264	21%
Amortization	2,077	2,051	1%	5,934	6,435	(8%)
Administration	408	252	62%	1,039	778	34%
Accretion expense of asset retirement obligations for property, plant and equipment	37	20	85%	111	60	85%
Segment operating income	1,405	1,903	(26%)	7,936	5,060	57%
Statistics (\$)						
Average selling price (per ounce)	883	682	29%	890	668	33%
Cash operating cost (per ounce produced) ¹	608	440	38%	551	412	34%
Cash operating cost (per tonne processed) ¹	27	24	13%	27	22	23%
Total cash cost (per ounce sold) ²	647	463	40%	604	454	33%
Amortization (per ounce sold)	125	106	18%	113	111	2%

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.

Third Quarter 2008 v. Third Quarter 2007

- During the third quarter of 2008, 329,500 tonnes of ore and 1,376,000 tonnes of waste material were mined from the Libiri pits, resulting in a stripping ratio of 4.2:1. Comparatively, in the third quarter of 2007, 411,000 tonnes of ore and 1,454,200 tonnes of waste material were extracted for a stripping ratio of 3.5:1.
- A total of 371,800 tonnes of ore at an average grade of 1.66 g/t was processed during the third quarter of 2008, compared to 329,700 tonnes at an average grade of 1.99 g/t for the corresponding quarter of 2007. The decrease in grade is mainly due to the processing of ore from a low grade zone in the Libiri pits and stockpiled ore which is partially offset by the 13% increase in throughput.
- Cash operating cost per ounce increased by 38% 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 – Third Quarter 2007	24	440
Increase in price and consumption of reagents and consumables	3	64
Decrease of head-grade recovered in ore processed.....	-	104
Cash Operating Cost – Third Quarter 2008	27	608

First Nine Months of 2008 v. First Nine Months of 2007

- During the first nine months of 2008, 1,065,400 tonnes of ore and 4,505,700 tonnes of waste material were extracted from the Samira Main and Libiri pits, resulting in a stripping ratio of 4:1. In the corresponding period in 2007, 1,119,200 tonnes of ore and 4,157,200 tonnes of waste material were extracted for a stripping ratio of 3.7:1.
- A total of 1,095,600 tonnes of ore at an average grade of 1.90 g/t was processed in 2008, compared to 1,089,800 tonnes at an average grade of 1.96 g/t for the same period in 2007.
- The decline in the recovery rate, from 86% for the nine-month period ended September 30, 2007 to 79% during the same period in 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 lower recovery rates during the first quarter of 2008.

Mining Operations

Kiniero, Guinea

	Three-month period ended September 30			Nine-month period ended September 30		
	2008	2007	Variation	2008	2007	Variation
Operating Data						
Ore mined (tonnes)	92,200	64,000	44%	421,800	291,200	45%
Ore processed (tonnes)	116,500	48,200	142%	408,700	334,000	22%
Head grade (g/t)	3.43	2.02	70%	3.43	2.05	67%
Recovery (%)	91	96	(5%)	93	92	1%
Gold ounces produced	11,900	3,200	272%	41,800	20,400	105%
Gold ounces sold	12,100	4,700	157%	42,200	21,800	94%
Financial Data (in thousands of dollars)						
Revenues – Gold sales	10,012	3,147	218%	37,725	14,429	161%
Mining operations expenses	5,666	5,960	(5%)	19,469	16,865	15%
Amortization	1,788	1,015	76%	5,596	2,875	95%
Administration	169	640	(74%)	697	1,014	(31%)
Accretion expense of asset retirement obligations for property, plant and equipment	31	23	35%	93	104	(11%)
Segment operating income	2,358	(4,491)	153%	11,870	(6,429)	285%
Statistics (\$)						
Average selling price (per ounce)	827	670	23%	894	662	35%
Cash operating cost (per ounce produced) ¹	466	851	(45%)	405	651	(38%)
Cash operating cost (per tonne processed) ¹	48	53	(9%)	41	39	5%
Total cash cost (per ounce sold) ²	468	720	(35%)	461	631	(27%)
Amortization (per ounce sold)	148	216	(31%)	132	132	-

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.

Third Quarter 2008 v. Third Quarter 2007

- During the third quarter of 2008, 92,200 tonnes of ore were extracted compared to 64,000 tonnes during the same quarter last year. This significant increase is due to a reduction to the stripping ratio, from 18:1 in the third quarter of 2007 to 8.5:1 in the third quarter of 2008. This reduction in the stripping ratio was mainly due to the commencement of operations in the West Balan pit during the last quarter of 2007.
- Throughput increased by 142% in the third quarter of 2008, compared to the corresponding period in 2007. During the third quarter of 2007, throughput decreased due to lack of ore and plant shutdown for maintenance.
- The head grade increased by 70% to reach 3.43 g/t. This significant increase is due to the operations in the West Balan pit, with known reserves of an average grade of 3.1 g/t in saprolite ore.
- A total of 11,900 ounces of gold were produced at Kiniero during the third quarter of 2008, representing a 272% increase over the corresponding period in 2007. This increase is due to the processing of higher grade ore at a higher throughput.
- The 45% reduction in the cash operating cost per ounce is mainly due to the higher grade and a decrease in the stripping ratio as explained in the following table:

Mining Operations

Kiniero, Guinea (continued)

	Per tonne processed \$	Per ounce produced \$
Changes in Cash Operating Cost:		
Cash Operating Cost – Third Quarter 2007	53	851
Decrease in the strip ratio	(8)	(136)
Increase in price of fuel	1	17
Increase in maintenance	1	17
Increase in price of reagents and consumables	1	17
Increase of the head grade recovered in ore processed.....	-	(300)
Cash Operating Cost – Third Quarter 2008	48	466

First Nine Months of 2008 v. First Nine Months of 2007

- The 45% increase in the quantity of ore extracted is due to a reduction to the stripping ratio, from 18:1 in 2007 to 8.5:1 for the corresponding period in 2008.
- The head grade was 67% higher than the corresponding period in 2007. This significant increase is due to the operations in the West Balan and Gobe C pits, with average grades of 3.1 g/t and 3.8 g/t respectively in saprolite ore.
- A total of 41,800 ounces of gold were produced at Kiniero during the first nine months of 2008, representing a 105% increase over the same period in 2007. This increase is primarily due to the processing of higher grade ore at a higher throughput.
- The 38% reduction in the cash operating cost per ounce is mainly due to the processing of higher grade ore, which was partially offset by the 5% increase in the cash operating cost per tonne.

Administration

Administration expenses totalled \$2,161,000 for the third quarter of 2008 and \$6,736,000 for the first nine months of 2008 compared to \$2,177,000 and \$6,199,000 for the corresponding periods in 2007. Expanded activities explain the overall increase.

Interest on Long-Term Debt

The interest on long-term debt totalled \$1,460,000 for the third quarter of 2008 compared to \$479,000 for the same period in 2007, representing an increase of \$981,000. In the first nine months of 2008 the interest on long-term debt increased by \$1,726,000 from \$1,468,000 in 2007 to \$3,194,000 in 2008. The increases are mainly due to the interest on the Mana mine \$45,000,000 term facility that is no longer capitalized since the commencement of commercial production on April 1, 2008.

Change to the Fair Value of Derivative Financial Instruments

Pursuant to the slight variation in the gold prices during the third quarter of 2008, an unrealized gain of \$1,420,000 on derivative financial instruments (gold sales contracts, gold purchase contracts and put options) was recorded, compared to an unrealized loss of \$7,150,000 for the same period in 2007. In the first nine months of 2008, an unrealized loss of \$6,322,000 was recorded due to the increase in the price of gold during that period as compared to an unrealized loss of \$9,989,000 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 for the first quarter of 2008.

Loss on Disposal of Portfolio Investments

During the first nine months of 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.

4 Cash Flow

The following table summarizes our cash flow activities:

	Three-month period ended September 30		Nine-month period ended September 30	
	2008	2007	2008	2007
(In thousands of dollars)				
Cash flow				
Operations.....	20,068	859	45,495	6,309
Working capital items	(6,494)	(813)	(11,254)	(5,241)
Operating activities	13,574	46	34,241	1,068
Financing activities	(1,247)	9,321	(983)	24,850
Investing activities	(12,892)	(27,017)	(51,958)	(82,323)
Change in cash and cash equivalents during the period	(565)	(17,650)	(18,700)	(56,405)
Cash and cash equivalents - Beginning of period	11,909	43,850	30,044	82,605
Cash and cash equivalents - End of period	11,344	26,200	11,344	26,200

Operating

Operating activities before working capital items generated liquidities of \$20,068,000 in the third quarter of 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. During the corresponding period in 2007, operating activities generated liquidities of \$859,000.

Working capital items required liquidities of \$6,494,000 during the third quarter of 2008. During the corresponding period in 2007, \$813,000 was required. Inventory increase 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.

Financing

The Company reimbursed \$1,250,000 of its long-term debt during the third quarter of 2008. During the same period in 2007, \$1,384,000 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.

In 2007, a public offering was closed. Use of proceeds as at September 30, 2008 in comparison to the previously proposed use of proceeds is as follows:

Description	Proposed use of proceeds	Actual use of proceeds
	\$	\$
Reduction in hedge program	15,000,000	15,000,000
Working capital, including acquisition of spare parts and building of ROM pad	8,982,000	8,982,000
	23,982,000	23,982,000

Investing

Investments of \$9,714,000 in property, plant and equipment were made during the third quarter of 2008 compared to investments of \$25,775,000 during the corresponding period in 2007.

Liquidities of \$5,386,000 were invested in the finalization of the Mana project during the third quarter of 2008 compared to \$17,292,000 during the same period last year.

These investments also represent exploration expenditures totalling \$1,673,000, the acquisition of mining equipments in the amount of \$364,000, as well as sustainable capital expenditures in the amount of \$2,291,000. Investments in the corresponding period in 2007 mainly represented exploration expenditures of \$3,250,000, as well as the acquisition of mining equipment for Kiniero and Mana in the amount of \$1,862,000.

During the third quarter of 2008, the Company proceeded to the settlement of gold sales contracts, representing 12,000 ounces for a total amount of \$6,560,000, and cashed \$92,000 in relation to the interest rate swap. For the corresponding period of 2007, the Company proceeded to the settlement of gold sales contracts representing 4,000 ounces for a total amount of \$1,329,000 and cashed \$168,000 in relation to the interest rate swap.

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 distinct 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 distinct account until the full repayment of the loan.

Financial Position

As at September 30, 2008, the Company benefited from a solid financial situation with \$16,644,000 in cash and cash equivalents and restricted cash.

In light of the recent decline in the gold spot price, the Company decided to significantly reduce its exploration programs and limit its expenditures in order to maximize its cash position.

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

- ⇒ Sustaining capital expenditures; and
- ⇒ Settlement of gold contracts.

5 Balance Sheets

	As at September 30, 2008	As at December 31, 2007
(In thousands of dollars)		
Current assets	67,905	77,750
Property, plant and equipment	204,954	188,916
Investment and other assets	29,281	5,572
Total Assets	302,140	272,238
Total Liabilities	129,510	135,884
Shareholders' Equity.....	172,630	136,354

The Company's total assets amounted to \$302,140,000 as at September 30, 2008, compared to \$272,238,000 as at December 31, 2007.

As at September 30, 2008, the Company held cash and cash equivalents of \$11,344,000, compared to \$30,044,000 as at December 31, 2007. In addition, the Company held \$5,300,000 in restricted accounts according to conditions associated to its loans as described in Note 8 of the Consolidated Interim Unaudited 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 \$204,954,000 as at September 30, 2008 compared to \$188,916,000 as at December 31, 2007, representing an increase of \$16,038,000. 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 \$129,510,000 as at September 30, 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. 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 \$275,733,000 as at September 30, 2008, compared to \$275,682,000 as at December 31, 2007.

6 Derivative Financial Instruments

The following table presents a summary as at September 30, 2008 of the Company's commitments relating to gold forward contracts.

	2008 (ounces)	\$/oz	2009 (ounces)	\$/oz
Gold sales contracts (a)	12,000	375	35,000	375
Gold purchase contracts (c)	(9,000)	942	(18,000)	993
Gold contracts – net sales commitment	<u>3,000</u>		<u>17,000</u>	

a) Gold Sales Contracts

During the first nine months of 2008, the Company proceeded to the settlement of gold sales contracts representing 36,000 ounces for a total amount of \$19,411,000.

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 September 30, 2008, the Company limited the potential accounting loss arising from a revaluation of its financial instruments with respect to these 27,000 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, as a requirement of 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 as follows: 5,000 in 2009, 5,000 in 2010 and 45,000 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 four calendar years is as follows:

	\$
2008	2,500,000
2009	22,500,000
2010	20,000,000
2011	17,500,000

Asset Retirement Obligations

The Company's operations are governed by a mining agreement for the protection of the environment. The Company conducts its operations in such manner as to protect public health and the environment. It will implement progressive measures for rehabilitation work during the operations, 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 \$6,528,000. These disbursements are expected to be made during the years 2008 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.

Environmental Rehabilitation

In order to maintain its permits, the Company is required to make payments to a trust account for environmental rehabilitation purposes. A \$300,000 payment was made on December 31, 2007. An annual payment of \$120,000 is also due.

Royalties and Development Taxes

Pursuant to the Company's mining agreement, 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 the Company's 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.

Mining Contract

In 2003, the Company signed a mining contract for the Samira Hill mine. The payments will be made over the estimated seven-year mine life. As at September 30, 2008, the Company is liable for a maximum amount of \$1,000,000, which represents the indemnity payable should an early termination occur.

Fuel Purchase Contract

In 2004, the Company signed an exclusive fuel procurement contract for the Samira Hill mine covering a period of seven years. As at September 30, 2008, the Company is liable for a maximum amount of \$232,000, which represents the indemnity payable in the event of early termination.

8 Risks and Uncertainties

As a mining company, the Company faces the environmental, operational, financial and political 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 September 30, 2008, the Company's long-term outstanding debt totalled of approximately \$62,500,000 of which \$3,750,000 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 involves 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.

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.

Operational Risks (continued)

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 and Construction Risk

A significant portion of the Company's operations in Niger and construction in Burkina Faso will continue to be conducted by outside contractors. As a result, the Company's operations at these sites 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 construction and 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.

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 conditions in these and other countries in which the Company has exploration properties and royalties 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 Additional Information

Exchange rates are as follows:

\$ CA / \$ US	2008	2007
December 31 (closing)	-	0.9881
March 31 (closing)	1.0279	1.1529
June 30 (closing)	1.0186	1.0634
September 30 (closing)	1.0599	0.9963
First quarter (average)	1.0050	1.1709
Second quarter (average)	1.0101	1.0960
Third quarter (average)	1.0396	1.0459

10 Disclosure Controls and Procedures

Disclosure controls and procedures have been established by the Company to ensure that financial information disclosed by the Company in this MD&A, in the consolidated interim unaudited financial statements, and in the related annual filings of the Company is properly recorded, processed, summarized and reported to its Audit Committee and the Board of Directors. The Company's management has a process to evaluate the effectiveness of the aforementioned controls and procedures, and is satisfied, as at September 30, 2008, that they are adequate for ensuring that complete and reliable financial information is produced.

As at September 30, 2008, the Chief Executive Officer and the Chief Financial Officer also evaluated the design of the Company's internal controls on financial information. These controls were designed to provide reasonable assurance that the financial information is reliable and that the financial statements are prepared in accordance with Canadian GAAP. They concluded that the Company's internal controls on financial information were adequately and effectively designed to provide reasonable assurance that the financial information is recorded, summarized and disclosed in a timely manner. There were no material changes in the Company's internal controls during the third quarter of 2008.

11 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:

	Three-month period ended September 30, 2008			
	Mana	Samira Hill	Kiniero	Total
Gold ounces produced	26,800	16,600	11,900	55,300
(In thousands of dollars)				
Operating costs (relating to ounces sold)	11,716	10,737	5,666	28,119
Royalties and selling expenses	(934)	(971)	(599)	(2,504)
Effects of inventory adjustments	(1,187)	332	473	(382)
Operating costs (relating to ounces produced)	9,595	10,098	5,540	25,233
Cash operating cost (per ounce produced)	358	608	466	456

	Three-month period ended September 30, 2007			
	Mana	Samira Hill	Kiniero	Total
Gold ounces produced	-	17,300	3,200	20,500
(In thousands of dollars)				
Operating costs (relating to ounces sold)	-	8,941	5,960	14,901
Royalties and selling expenses	-	(831)	(198)	(1,029)
Inventory write-down variation	-	-	(1,202)	(1,202)
Fixed expenses incurred during the temporary shutdown	-	-	(1,373)	(1,373)
Effects of inventory adjustments	-	(498)	(464)	(962)
Operating costs (relating to ounces produced)	-	7,612	2,723	10,335
Cash operating cost (per ounce produced)	-	440	851	504

12 Summary of Quarterly Information

(In thousands of dollars, except for amounts per share)	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Gold sales	51,147	44,826	25,540	21,044	16,314	18,136	18,576	10,836
Operating income (loss)	11,959	13,822	2,801	857	(3,910)	(2,039)	70	(5,235)
Net income (loss)	11,366	11,681	12,502	(7,477)	(10,317)	(2,083)	(3,233)	(9,035)
Basic and diluted net income (loss) per share	0.06	0.05	0.06	(0.04)	(0.05)	(0.01)	(0.02)	(0.05)
Cash flow from operating activities ¹	20,068	19,304	6,143	3,924	859	1,591	3,871	(4,794)

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.

13 Additional Information and Continuous Disclosure

This MD&A has been prepared as of November 10, 2008. 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).

14 Forward-Looking Statements

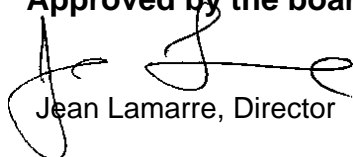
This MD&A contains forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding expectations of the Company as to the market price of gold, strategic plans, future commercial production, production targets, timetables, mining operating expenses, capital 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.

Consolidated Balance Sheets

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

	As at September 30, 2008 \$	As at December 31, 2007 \$
Assets		
Current assets		
Cash and cash equivalents	11,344	30,044
Restricted cash (note 8)	-	7,000
Portfolio investments (note 4)	-	1,269
Accounts receivable	4,270	6,426
Inventories (notes 3 et 5)	48,825	28,810
Prepaid expenses	3,466	4,201
	67,905	77,750
Property, plant and equipment (notes 3 et 6)	204,954	188,916
Investment and other assets (note 7)	29,281	5,572
	302,140	272,238
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	26,558	21,685
Current portion of long-term debt (note 8)	17,799	15,637
Current portion of fair value of derivative financial instruments (note 14)	25,819	22,243
	70,176	59,565
Long-term debt (note 8)	42,941	45,327
Fair value of derivative financial instruments (note 14)	-	16,389
Future income taxes	1,424	-
Advances payable (note 9)	9,747	10,195
Asset retirement obligations for property, plant and equipment (note 10)	5,222	4,408
	129,510	135,884
Shareholders' Equity		
Share capital (note 11)	275,733	275,682
Contributed surplus (note 12)	3,948	3,022
Deficit	(107,051)	(142,600)
Accumulated other comprehensive income (note 13)	-	250
	172,630	136,354
	302,140	272,238

Approved by the board,


Jean Lamarre, Director


Benoit La Salle, Director

Consolidated Statements of Deficit and Comprehensive Income

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

Consolidated Deficit

	Three-month period ended September 30		Nine-month period ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance – beginning of period				
Balance previously reported.....	(118,417)	(122,888)	(142,600)	(75,292)
Accounting change				
• Stripping costs	-	-	-	(6,455)
Restated balance	(118,417)	(122,888)	(142,600)	(81,747)
Accounting changes – financial instruments				
• Gold sales contracts	-	-	-	(35,770)
• Deferred financing costs	-	-	-	(55)
Net income (loss) for the period	11,366	(10,317)	35,549	(15,633)
Balance – end of period	(107,051)	(133,205)	(107,051)	(133,205)

Consolidated Comprehensive Income

	Three-month period ended September 30		Nine-month period ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Net income (loss) for the period.....	11,366	(10,317)	35,549	(15,633)
Other components of comprehensive income				
• Net variation on the latent gain on available- for-sale financial assets (note 13)	7	(169)	(250)	(129)
Comprehensive income	11,373	(10,486)	35,299	(15,762)

Consolidated Statements of Operations

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

	Three-month period ended September 30		Nine-month period ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue – Gold sales	51,147	16,314	121,513	53,026
Expenses				
Mining operations	28,119	14,901	67,830	43,129
Amortization of property, plant and equipment	8,820	3,103	18,120	9,413
Administration	2,161	2,177	6,736	6,199
Accretion expense of asset retirement obligations for property, plant and equipment	88	43	245	164
	39,188	20,224	92,931	58,905
Operating income (loss)	11,959	(3,910)	28,582	(5,879)
Interest, financing fees and other income	(160)	(460)	(588)	(1,482)
Interest on long-term debt.....	1,460	479	3,194	1,468
Stock-based compensation	276	328	942	1,022
Change to the fair value of derivative financial instruments (note 14)	(1,420)	7,150	6,322	9,989
Gain on disposal of investment in subsidiaries (note 6).....		-	(17,849)	-
Loss on disposal of portfolio investments (note 4)	11	-	317	-
Foreign exchange gain	(424)	(1,090)	(729)	(1,243)
Net income (loss) before taxes	12,216	(10,317)	36,973	(15,633)
Future income tax expense	850	-	1,424	-
Net income (loss) for the period	11,366	(10,317)	35,549	(15,633)
Basic and diluted net income (loss) per share	0.06	(0.05)	0.17	(0.08)

Consolidated Statements of Cash Flows

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

	Three-month period ended September 30		Nine-month period ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Net income (loss) for the period	11,366	(10,317)	35,549	(15,633)
Adjustment for				
Change to fair value of derivative financial instruments ..	(1,420)	7,150	6,322	9,989
Loss on disposal of investment in portfolio investments..	11	-	317	-
Amortization of property, plant and equipment.....	8,820	3,103	18,120	9,413
Amortization of stripping costs	138	-	316	-
Stock-based compensation	276	328	942	1,022
Accretion expense of asset retirement obligations.....	88	43	245	164
Amortization of deferred financing costs	193	116	557	347
Gain on disposal of investment in subsidiaries	-	-	(17,849)	-
Unrealized foreign exchange loss (gain)	(254)	436	(448)	1,007
Future income taxes	850	-	1,424	-
	20,068	859	45,495	6,309
Changes in non-cash working capital items and settlement of liabilities related to asset retirement obligations for property, plant and equipment (note 15 a)	(6,494)	(813)	(11,254)	(5,241)
	13,574	46	34,241	1,068
Financing activities				
Reimbursement of long-term debt	(1,250)	(1,384)	(5,268)	(2,902)
New term facility, net of financing costs.....	-	10,341	4,250	27,191
Issuance of share capital	3	364	35	561
	(1,247)	9,321	(983)	24,850
Investing activities				
Additions to property, plant and equipment	(9,714)	(25,775)	(36,850)	(60,529)
Disposal of portfolio investments	40	-	702	-
Acquisition of financial instruments.....	-	(81)	-	(81)
Financial instruments settled	(6,468)	(1,161)	(19,060)	(14,713)
Decrease (increase) in restricted cash	3,250	-	3,250	(7,000)
	(12,892)	(27,017)	(51,958)	(82,323)
Change in cash and cash equivalents during the period...	(565)	(17,650)	(18,700)	(56,405)
Cash and cash equivalents – beginning of period	11,909	43,850	30,044	82,605
Cash and cash equivalents – end of period	11,344	26,200	11,344	26,200

Notes to Consolidated Financial Statements

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

1

Basis of presentation

These consolidated interim unaudited financial statements are prepared in accordance with Canadian generally accepted accounting principles. These consolidated interim unaudited financial statements do not include all disclosures required under Canadian generally accepted accounting principles for annual audited financial statements. Accordingly, they should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended December 31, 2007.

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

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

Those consolidated interim unaudited financial statements were prepared using the same accounting policies in application for the consolidated financial statements as of December 31, 2007, with the exception of the modifications specified below.

2

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 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.

3

Accounting policies modifications

Effective January 1, 2008, the company adopted four 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.

Notes to Consolidated Financial Statements

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

3

Accounting policy modifications (continued)

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.

4

Portfolio investments

The portfolio investments consist of share capital that is available for sale and is accounted for at its fair value.

	As at September 30, 2008 \$	As at December 31, 2007 \$
Cost	-	1,019
Latent gain	-	250
Fair value of available for sale portfolio investments	-	1,269

In July 2008, the company recorded a loss on disposal of portfolio investments of \$11,000 following the disposal of shares in a publicly traded company for a cash consideration of \$40,000.

5

Inventories

	As at September 30, 2008 \$	As at December 31, 2007 \$
Doré bars	4,761	3,918
Gold in circuit	5,792	1,526
Stockpiles	10,236	6,534
Supplies and spare parts	28,036	16,832
	48,825	28,810

Notes to Consolidated Financial Statements

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

6

Property, plant and equipment

	As at September 30, 2008			As at December 31, 2007		
	Cost \$	Accumulated depreciation \$	Net \$	Cost \$	Accumulated depreciation \$	Net \$
Property, plant and equipment – producing properties:						
Property acquisition costs, deferred exploration and development costs.....	150,132	44,368	105,764	85,710	34,253	51,457
Buildings and equipment related to mining production.....	90,261	18,275	71,986	34,441	11,439	23,002
Mining equipment.....	22,145	3,880	18,265	20,812	2,105	18,707
Rolling stock, communication and computer equipment	12,658	5,600	7,058	10,224	4,509	5,715
Stripping costs (b)	1,379	325	1,054	1,329	-	1,329
	276,575	72,448	204,127	152,516	52,306	100,210
Assets under construction (a)	-	-	-	72,123	-	72,123
Exploration properties (c)	827	-	827	16,583	-	16,583
Total property, plant and equipment.....	277,402	72,448	204,954	241,222	52,306	188,916

a) 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 financing fees of \$493,000, start-up costs of \$4,029,000 and amortization of property, plant and equipment of \$1,415,000.

b) Reconciliation of capitalized stripping costs for the nine months of 2008 is as follows:

	\$
Balance – January 1, 2008	1,329
Stripping costs capitalized	50
Cumulated amortization	(325)
Balance – September 30, 2008	1,054

Notes to Consolidated Financial Statements

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

6

Property, plant and equipment (continued)

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

	As at September 30, 2008 \$	As at December 31, 2007 \$
Burkina Faso (Mana)	-	14,619
Burkina Faso (Datambi)	827	825
Energy projects	-	1,139
	<u>827</u>	<u>16,583</u>

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

Costs and deferred exploration and developments costs

	Nine-month period ended September 30, 2008 \$	Twelve-month period ended December 31, 2007 \$
Balance – beginning of period	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	(15,453)	-
Disposal of Energy - Projects	(2,151)	-
Balance – end of period	<u>827</u>	<u>16,583</u>

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.

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.

Notes to Consolidated Financial Statements

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

7

Investment and other assets

	As at September 30, 2008 \$	As at December 31, 2007 \$
Investment in GoviEx, at cost (note 6)	19,600	-
Restricted cash (note 8)	5,300	1,550
Fair value of derivative financial instruments (note 14)	835	910
Other	3,546	3,112
	<u>29,281</u>	<u>5,572</u>

8

Long-term debt

Long-term debt consists of the following:

	As at September 30, 2008 \$	As at December 31, 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⁾	3,750	5,000
Bank loan of \$20,000,000, bearing interest at 8.50% payable quarterly, principal repayable in sixteen equal quarterly installments starting September 30, 2007, secured by a pledge of certain assets and by an assignment of claims of certain inter company advances. ²⁾	13,750	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
Long-term debt	62,500	63,518
Deferred financing fees	(1,760)	(2,554)
Long-term debt, net of deferred financing costs	60,740	60,964
Current portion of long-term debt.....	(17,799)	(15,637)
Long-term portion of long-term debt	<u>42,941</u>	<u>45,327</u>

Notes to Consolidated Financial Statements

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

8

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 granted 800,000 warrants to the lender. Each warrant entitles its holder to purchase one common share of the company at a price of \$2.12 (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 \$1.89 (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.

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

	\$
2008	2,500
2009	22,500
2010	20,000
2011	17,500
	<u>62,500</u>

9

Advances payable

	As at September 30, 2008 \$	As at December 31, 2007 \$
Advances payable to a minority interest ¹⁾	6,740	7,188
Advance payable to the Republic of Niger ²⁾	3,007	3,007
	<u>9,747</u>	<u>10,195</u>

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, \$6,421,000 (\$6,887,000 in 2007) is denominated in Canadian dollars.
- 2) This advance is non-interest bearing.

10

Asset retirement obligations for property, plant and equipment

The company's operations are governed by a mining agreement 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 mine. 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.

Notes to Consolidated Financial Statements

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

10

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

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

	Nine-month period ended September 30, 2008 \$	Twelve-month period ended December 31, 2007 \$
Balance – beginning of period	4,408	2,757
Increase due to accretion expense	265	221
New liabilities	582	1,866
Revision of estimated cash flows	-	(365)
Liabilities paid off	(33)	(71)
Balance – end of period	5,222	4,408

The estimated undiscounted cash flow required to settle the asset retirement obligations is \$6,528,000. Those disbursements are expected to be made during the years from 2008 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 \$0.31 (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 \$0.11 (CA \$0.12) per share

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

	As at September 30, 2008		As at December 31, 2007	
	Number (in thousands)	Amount \$	Number (in thousands)	Amount \$
Common shares				
Balance – beginning of period	213,465	273,622	194,125	246,688
Issued and paid in cash	-	-	18,500	25,900
Issued for exercises of options	36	51	840	1,034
Balance – the end of period	213,501	273,673	213,465	273,622
Warrants				
Balance – beginning of period	3,019	2,060	2,363	1,420
Issued to lender (note 8)	-	-	1,000	800
Expired	-	-	(344)	(160)
Balance – the end of period	3,019	2,060	3,019	2,060
Common shares and warrants	216,520	275,733	216,484	275,682

Notes to Consolidated Financial Statements

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

11

Share capital (continued)

Warrants

Warrants outstanding as at September 30, 2008 :

Expiration date	Exercise price	Number of warrants
December 2008	\$1.76 (CA \$1.87)	1,219,000
July 2011	\$2.12 (CA \$2.25)	800,000
February 2012	\$1.89 (CA \$2.00)	1,000,000
		<u>3,019,000</u>

Options

A total of 1,750,000 new options were issued to employees and officers of the company during the first nine months of 2008. These options were subject to a valuation.

A total of 35,500 options were exercised during the nine-month period ended September 30, 2008 under the Plan for a cash consideration of \$35,000 (CA \$37,000). An amount of \$16,000 has been reclassified from contributed surplus to share capital.

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

	As at September 30, 2008		As at December 31, 2007	
	Number of options (in thousands)	Weighted average exercise price \$	Number of options (in thousands)	Weighted average exercise price \$
Balance – beginning of period	6,578	1.97	5,082	1.77
Cancelled or expired.....	(625)	1.63	(1,039)	2.53
Exercised.....	(36)	0.99	(840)	0.67
Issued.....	1,750	1.27	3,375	1.66
Balance – end of period.....	<u>7,667</u>	<u>1.73</u>	<u>6,578</u>	<u>1.97</u>
Options exercisable – end of period	<u>2,753</u>	<u>1.88</u>	<u>1,591</u>	<u>1.89</u>

Notes to Consolidated Financial Statements

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

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 September 30, 2008 \$	As at December 31, 2007 \$
Long-term debt	70,487	71,159
Less : cash and cash equivalents	11,344	30,044
	59,143	41,115
Shareholders' equity	172,630	136,354
Total capital	231,773	177,469

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

- 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.
- Ensure sufficient capital in order to meet short-term business requirements and pursue the development of its mining projects and operations.
- Meet external capital requirements on its loans.
- 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.

Debt to Equity Ratio: Defined as the total debt divided by the total equity.

Debt: Defined as the long term-debt, including the short-term portion as per the consolidated balance sheet.

Equity: Defined as Shareholders' equity as per the consolidated balance sheet.

Debt Service Coverage Ratio: Defined as the free cash flow divided by the total finance payment.

Free Cash Flow: Defined as the operating revenues, less the aggregate of:

- mining operations costs
- administration costs; and
- capital expenditure

Capital Expenditure: Defined as capital expenditure in accordance with Canadian GAAP and excluding any expenses made in connection with:

- increasing the capacity of existing production facilities and/or
- construction of a new production facilities and exploration programs.

Total Finance Payment: Defined as the total interest payable and total debt repayment.

The Company is in compliance with the ratio requirements of its lenders.

Notes to Consolidated Financial Statements

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

12

Contributed surplus

The contributed surplus account is composed of:

	As at September 30, 2008 \$	As at December 31, 2007 \$
Balance – beginning of period	3,022	1,978
Exercised options	(16)	(473)
Charges from valuation of options	942	1,357
Expired warrants	-	160
Balance – end of period	3,948	3,022

13

Accumulated other comprehensive income

	Nine-month period ended September 30, 2008 \$
Accumulated latent gain on portfolio investments – beginning of period	250
Net variation for the period on the latent gain available for sale on portfolio investments	(250)
Accumulated latent loss on portfolio investments – end of period	-

Notes to Consolidated Financial Statements

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

14

Financial instruments

The following table presents a summary as at September 30, 2008 of the company's commitments relating to gold forward contracts.

	2008 (ounces)	\$/oz	2009 (ounces)	\$/oz
Gold sales contracts (a)	12,000	375	35,000	375
Gold purchase contracts (c)	(9,000)	942	(18,000)	993
Gold contracts– net sales commitment	<u>3,000</u>		<u>17,000</u>	

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 gain of \$1,420,000 during the third quarter of 2008 and a loss of \$6,322,000 during the first nine months of 2008 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.

	Three-month period ended September 30, 2008		Nine-month period ended September 30, 2008	
	Asset \$	Liability \$	Asset \$	Liability \$
Fair value at beginning of period (calculated using a market price of \$925 per ounce as at June 30, 2008 and \$833 per ounce as at December 31, 2007).....	695	(33,567)	910	(38,632)
Financial instruments settled :				
Gold sales contracts (a)	-	6,560	-	19,411
Interest rate swap (b)	-	(92)	-	(351)
Changes to fair value recognized in results	140	1,280	(75)	(6,247)
Fair value at end of period (calculated using a market price of \$880 per ounce as at September 30, 2008).....	835	(25,819)	835	(25,819)
Current portion of derivative financial instruments	-	(25,819)	-	(25,819)
Long-term portion of derivative financial instruments	835	-	835	-

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.

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

14

Financial instruments (continued)

The carrying value of long-term debt bearing interest at variable rates is considered to approximate fair value. It is impossible, without considerable effort, to evaluate the fair value of advances payable as they are non-interest bearing and have no fixed terms of repayment.

a) Gold sales contracts

During the first nine months of 2008, the company proceeded to the settlement of gold sales contracts, representing 36,000 ounces for a total amount of \$19,411,000 and 12,000 ounces for \$6,560,000 during the three-month period ended September 30, 2008.

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.

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 September 30, 2008, the company limited the potential accounting loss arising from a revaluation of its financial instruments with respect to these 27,000 ounces of gold.

d) Put options

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

The company purchased put options to price-protect at a minimum price of \$600 per ounce for 55,000 ounces of gold broken down 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.

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, gold price risk and petroleum 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.

Notes to Consolidated Financial Statements

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

14

Financial instruments (continued)

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.

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 September 30, 2008:

	Less than one year \$	Between one and four years \$
Accounts payable and accrued liabilities.....	26,558	-
Long-term debt.....	17,799	42,941
Gold contracts – covered positions	16,227	-
	<hr/> 60,584	<hr/> 42,941

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.

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

14

Financial instruments (continued)

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.

Petroleum price risk

The Company uses petroleum fuel to power its mining equipment and to generate electrical energy to supply its mining operations, and therefore the Company's operating results and financial results may be adversely affected by the rise of petroleum prices. The Company does not use derivatives to mitigate its exposure to petroleum price risk.

Notes to Consolidated Financial Statements

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

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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

	Three-month period ended September 30		Nine-month period ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Accounts receivable.....	(2,285)	2,330	2,156	(1,204)
Prepaid expenses	1,286	(2,604)	735	(3,498)
Inventories	(7,506)	(2,415)	(18,551)	(1,650)
Other assets	(262)	825	(434)	57
Accounts payable and accrued liabilities	2,285	1,055	4,873	1,084
Settlement of liabilities related to asset retirement obligations for property, plant and equipment	(12)	(4)	(33)	(30)
	(6,494)	(813)	(11,254)	(5,241)

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

	Three-month period ended September 30		Nine-month period ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Unrealized foreign exchange loss (gain) on advances payable	(254)	436	(448)	1,007
Amortization of property, plant and equipment allocated to mining assets or property, plant and equipment	15	16	43	100
Amortization of property, plant and equipment allocated to assets under construction.....	-	250	190	663
Net effect of amortization of property, plant and equipment allocated to inventories.....	398	600	1,464	240
New asset retirement obligations allocated to property, plant and equipment	181	213	582	600

c) Cash flows related to interest

	Three-month period ended September 30		Nine-month period ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Interest paid during the period	1,202	630	3,467	1,924

Notes to Consolidated Financial Statements

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

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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.

	Mana Mine, Burkina Faso \$	Samira Hill Mine, Niger \$	Kiniero Mine, Guinea \$	Corporate and others \$	Total \$
Three-month period ended September 30, 2008					
Revenue – Gold sales	26,471	14,664	10,012	-	51,147
Operating expenses	11,716	10,737	5,666	-	28,119
Amortization of property, plant and equipment	4,923	2,077	1,788	32	8,820
Administration	292	408	169	1,292	2,161
Accretion expense of asset retirement obligation	20	37	31	-	88
Operating income (loss)	9,520	1,405	2,358	(1,324)	11,959
Three-month period ended September 30, 2007					
Revenue – Gold sales	-	13,167	3,147	-	16,314
Operating expenses	-	8,941	5,960	-	14,901
Amortization of property, plant and equipment	-	2,051	1,015	37	3,103
Administration	-	252	640	1,285	2,177
Accretion expense of asset retirement obligation	-	20	23	-	43
Operating income (loss)	-	1,903	(4,491)	(1,322)	(3,910)

Notes to Consolidated Financial Statements

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

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Segmented information (continued)

	Mana Mine, Burkina Faso \$	Samira Hill Mine, Niger \$	Kiniero Mine, Guinea \$	Corporate and others \$	Total \$
Nine-month period ended September 30, 2008					
Revenue – Gold sales	37,068	46,720	37,725	-	121,513
Operating expenses	16,661	31,700	19,469	-	67,830
Amortization of property, plant and equipment	6,492	5,934	5,596	98	18,120
Administration	476	1,039	697	4,524	6,736
Accretion expense of asset retirement obligation	41	111	93	-	245
Operating income (loss)	13,398	7,936	11,870	(4,622)	28,582
As at September 30, 2008					
Property, plant and equipment	122,657	50,507	31,454	1,386	206,004
Total assets	151,211	74,902	45,987	30,040	302,140
Nine-month period ended September 30, 2007					
Revenue – Gold sales	-	38,597	14,429	-	53,026
Operating expenses	-	26,264	16,865	-	43,129
Amortization of property, plant and equipment	-	6,435	2,875	103	9,413
Administration	-	778	1,014	4,407	6,199
Accretion expense of asset retirement obligation	-	60	104	-	164
Operating income (loss)	-	5,060	(6,429)	(4,510)	(5,879)
As at September 30, 2007					
Property, plant and equipment	80,241	52,661	30,981	2,218	166,101
Total assets	85,283	75,549	42,161	29,685	232,678

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Comparative figures

Certain comparative data were reclassified to conform to the presentation adopted for the period ended September 30, 2008.



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