AFGEM

serious about diamonds

consolidated reviewed interim results for the 6 months ended 30 September 2005

Balance sheet

	Audited 31 Dec 2003 R	Reviewed 31 Dec 2004 R	Audited 31 Mar 2005 R	Reviewed 30 Sept 2005 R
Non–current assets	105 126 599	2 826 360	2 693 384	119 279 018
Property, plant and equipment	92 577 755	2 826 360	2 693 384	41 184 140
Intangible assets	–	–	–	77 494 155
Long–term loans	–	–	–	600 723
Deferred tax assets	12 548 844	–	–	–
Current assets	94 086 545	34 072 026	35 471 913	16 437 175
Inventory	28 890 956	–	–	246 132
Trade and other receivables	12 956 481	5 890 033	229 078	2 352 156
Short-term loans	–	18 233 084	32 128 401	8 909 505
Income tax receivable	3 026 501	–	–	–
Cash and cash equivalents	49 212 607	9 948 909	3 114 434	4 929 382
Total assets	**199 213 144**	**36 898 386**	**38 165 297**	**135 716 193**
Equity				
Share capital	(1 423)	(1 438)	(1 438)	(2 340)
Preference share capital	–	–	–	(723)
Share premium	(131 040 013)	(1 622 673)	(1 622 673)	(37 953 034)
Retained income	(31 334 969)	(22 736 258)	(27 230 376)	(20 859 413)
Minority interest	(159 815)	–	–	–
Non-current liabilities	(26 690 271)	(2 031 647)	(1 910 737)	(49 375 010)
Long-term liabilities	(16 744 099)	(2 031 647)	(1 910 737)	(1 176 260)
Royalties payable	–	–	–	(32 500 000)
Environmental rehab provision	(544 450)	–	–	(15 698 750)
Deferred tax liabilities	(9 401 722)	–	–	–
Current liabilities	(9 986 653)	(10 506 370)	(7 400 073)	(27 525 673)
Trade and other payables	(9 986 653)	(7 265 798)	(826 397)	(20 359 217)
Short–term loans	–	–	(667 645)	(532 870)
Income tax payable	–	(3 240 572)	(5 906 031)	(6 633 586)
Total equity and liabilities	**(199 213 144)**	**(36 898 386)**	**(38 165 297)**	**(135 716 193)**
Number of shares in issue	142 256 182	143 797 717	143 797 717	233 968 155
Net asset value per share (cents)	114.14	16.94	20.07	25.14

Statement of changes in equity

	Ordinary share capital	Share premium	Preference share capital	Retained income	Total
Opening balance at 1 April 2005	(1 438)	(1 622 673)	–	(27 230 376)	(28 854 487)
Shares issued	(902)	(36 330 361)	(723)	–	(36 331 986)
Net loss for the period	–	–	–	6 370 963	6 370 963
Closing balance at 30 September 2005	(2 340)	(37 953 034)	(723)	(20 859 413)	(58 815 510)

Highlights

Financial

- Strong balance sheet with reasonable cash resources
- NAV per share of 25.1 cents per share
- HEPS of 4.2 cents per share

Operational

- Refurbished winder successfully installed at Simolotse No 2 shaft, final commissioning imminent
- Completion of link up of No 1 and No 2 shafts at Simolotse; a key development
- Development work in place for production ramp up in 2006

Corporate

- Acquisition of three diamond mines successfully concluded
- Empowerment deal entered into
- Board restructured to reflect transformation

Income statement

	Audited 9 months ended 31 Dec 2003 R	Reviewed 12 months ended 31 Dec 2004 R	Audited 15 months ended 31 Mar 2005 R	Reviewed 6 months ended 30 Sept 2005 R
Revenue	72 659 236	–	36 771 497	2 461 033
Cost of sales	25 977 310	–	6 674 049	10 118 900
Gross profit/(loss)	46 681 926	–	30 097 448	(7 657 867)
Other income	–	–	–	17 340 134
Management fees received	–	7 000 000	11 464 005	3 000 000
Profit on Sale of Business	–	–	90 225 852	–
Net foreign exchange loss/(gain)	8 203 809	(4 563 670)	621 021	–
Operating expenses	30 437 300	1 051 158	32 727 656	18 546 454
Operating income/(loss)	8 040 817	10 512 512	98 438 628	(5 864 187)
Net interest paid/(received)	1 120 616	(234 870)	41 548	(299 350)
Net profit before taxation	6 920 201	10 747 382	98 397 080	(5 564 837)
Taxation	(5 269 815)	3 224 214	17 567 858	806 126
Net profit/(loss) for the period	12 190 016	7 523 167	80 829 222	(6 370 963)
Weighted average number of shares	139 951 637	143 797 717	143 361 169	187 178 454
Earnings/(loss) per share (cents)	8.70	5.23	56.20	(3.40)
Headline earnings/(loss) per share (cents)	8.70	5.23	(1.50)	4.15

Cash flow statement

	Audited 9 months ended 31 Dec 2003 R	Reviewed 12 months ended 31 Dec 2004 R	Audited 15 months ended 31 Mar 2005 R	Reviewed 6 months ended 30 Sept 2005 R
Cash flows from operating activities				
Cash generated by/(utilised in) operations	16 125 024	(12 254 372)	3 130 801	14 470 558
Net interest (paid)/received	(1 120 616)	(104 602)	(41 548)	299 350
Taxation refund received/(paid)	3 157 495	(5 880 682)	(5 580 712)	(78 571)
Dividends paid	–	(171 389 599)	(13 771 996)	–
Net cash flows from operating activities	18 161 903	(189 629 255)	(16 263 455)	14 691 337
Cash flows from investing activities				
Additions to property, plant and equipment	(4 567 720)	(5 937 020)	(983 859)	(68 678)
Proceeds on disposal of property, plant and equipment	152 503	157 009 829	–	–
Cash proceeds on sale of subsidiaries	–	–	4 494 415	–
Group loans acquired	–	–	–	(43 636 433)
Investment in subsidiary Company	(1 830 662)	–	–	(59 717 907)
Net cash flows from investing activities	(6 245 879)	151 072 809	3 510 556	(103 423 018)
Cash flows from financing activities				
Long term liabilities repaid	(450 309)	(2 329 940)	(2 909 225)	(759 004)
Proceeds from shares issued	–	1 622 688	1 622 688	36 331 986
Increase in royalties payable	–	–	–	32 500 000
Movement in rehabilitation provision	–	–	–	(9 750)
Movement in short term loans receivable and payable	–	–	(3 967 691)	23 084 120
Loan repayments received	–	34 020 926	(597 981)	–
Loans granted	–	(34 020 926)	(27 493 065)	(600 723)
Net cash flows from financing activities	(450 309)	(707 252)	(33 345 274)	90 546 629
Net increase/(decrease) for the period	11 465 715	(39 263 698)	(46 098 173)	1 814 948
At the beginning of the period	37 746 892	49 212 607	49 212 607	3 114 434
At end of the period	49 212 607	9 948 909	3 114 434	4 929 382

Reconciliation of Earnings to Headline earnings

Earnings	(6 370 963)
Impairment of Rex Mining loan	11 619 701
Amortisation of mining right	2 525 108
Headline earnings	7 773 846

Review of Operations

Safety

Simolotse Mine won an award in 2005 for the most improved underground mine in the Northern Cape from the Department of Minerals and Energy ("DME"). Afgem continues to place great importance on all aspects of safety and management is pleased to report that there have been no fatalities since management control was obtained in August 2005. Since the beginning of this financial year, there have been 180 000 fatality free shifts.

Mining

Mining at Simolotse Mine over the last six months has been focused on increasing future levels of production. Drive development at the 1500 level is complete, linking No 1 and No 2 shafts. This link up has greatly improved flexibility and ventilation and has provided early access to unmined kimberlite fissure material. No 2 shaft is in the process of being re-equipped and cleaned in anticipation of resuming mining there in the near future.

The refurbished winder at the No 2 shaft has been cold commissioned and should be operational early in 2006. This should allow Simolotse to increase fissure production by another 150 to 180 tonnes per day.

Both shafts will be deepened from their current 1600 levels in order to access additional ore reserves and management is evaluating the possibility of upgrading the No 1 shaft winder for this purpose. This will improve the hoisting speed and capacity and accordingly production will not decline, despite the greater depths.

Drive development was a major initiative in the period, at times at the expense of mining fissure material. Tonnes hoisted varied over the period but the last three months to date have seen a steady increase. Tonnes processed however exceeded fissure mined as stockpiled material and tailings were also treated. Off fissure development is comfortably ahead of schedule and mining activities will concentrate on fissure mining in early 2006.

Mineral Processing

The mobile Dense Medium Separation ("DMS") plant installed in September 2005 has operated satisfactorily as numerous ongoing modifications have been made to improve throughput and increase the robustness of the plant. However, the mobile DMS does not have a tertiary crusher and the resultant reject material is being stockpiled as a significant proportion is greater than 6 mm in size. A tertiary crusher is required to liberate the diamonds contained in this remaining fissure and investigations are ongoing to source a suitable crusher for this purpose.

The 50 tonnes per hour DMS plant that is on site was the subject of a legal dispute with the manufacturers. This dispute has been resolved and plans are to re-commission the plant in the first half of 2006. This will greatly improve both the processing capacity and the recovery rate at Simolotse.

Grade recovered continues to fluctuate due to the inclusion of tailings and stockpiled material. This should stabilise in the near future as the stockpile declines and additional fresh stopes are mined.

Over the interim period, some 5000 carats of diamonds were sold for an average price of $215 per carat. The market has remained strong and prices have risen over the reporting period. The last sale in November 2005 achieved an average price of approximately $280 per carat.

There appears to be no reason to believe that the strong demand for diamonds will decline and we therefore believe that prices will remain strong for the rest of the financial year.

Corporate Developments

On 17 June 2005, Afgem shareholders voted in favour of the acquisition of the South African mining assets of Rex Mining Corporation Limited ("Rex Mining"), successfully concluding this transaction. These assets include the following three underground fissure diamond mines:

- Simolotse Mine (previously Loxton Exploration) an operational mine, northwest of Kimberley in the Northern Cape Province;
- Bokang Mine (previously Bellsbank Consolidated Diamond Mine) also northwest of Kimberley in the Northern Cape Province; and
- Agisanang Mine (previously Rex Diamond Mine) which is situated between Welkom and Theunissen in the Free State Province, collectively the "mining assets".

At this same meeting the introduction of a Black Economic Empowerment partner also received an overwhelming majority vote. As such Afgem now has a 21% empowerment partner in Simeka Mining and previously disadvantaged Afgem staff hold a further 3%. The Company announced on 4 August 2005 that Afgem's board had been restructured to reflect this transformation, with Robinson Ramaite of Simeka Mining being appointed the new Chairman. Keith Rayner and Chris Boulle resigned as Chairman and non-Executive director respectively as part of the restructuring of the Board. Mike Nunn, the founder of Afgem has stepped down as the CEO of Afgem but will remain on the board in a non-Executive position. He is succeeded by Rodney Yaldwyn, as CEO and Lemogang Pitsoe as COO. After this restructuring of the Board, Ian Blacher was appointed as a non-Executive director on 22 September 2005.

A new order Prospecting Right has been applied for at Bokang Mine and is being processed by the DME. Exploration at Bokang is expected to commence as soon as this has been issued.

The Diamond Amendment Act ("the Act")

As an empowered company, cognisant of the needs of growing and developing the South African diamond industry, Afgem totally embraces the spirit of the Act. However, as a marginal diamond producer, it is critical that Afgem's mines continue to obtain the highest diamond prices possible. We believe that should the Act be promulgated in its current draft form, the resulting lower prices could have a potentially disastrous effect on Simolotse Mine and numerous other marginal producers.

Review of Results

The interim results have been reviewed by the Company's auditors, Zeelie De Kock Chartered Accountants (SA). Their unmodified review opinion is available at the Company's registered office. In compliance with the JSE Listings Requirements, Afgem has prepared its consolidated reviewed interim results in accordance with International Financial Reporting Standards ("IFRS") for the six months to 30 September 2005.

In June this year the acquisition of the mining assets was concluded. Prior to this, Afgem had been managing the mining assets on behalf of Rex Mining for a management fee in anticipation of the acquisition. Accordingly, these interim results for the six months to September 2005 reflect two distinct periods in the acquisition process:

- For the months of April, May and June 2005 the management fee paid by Rex Mining of R1 million per month was Afgem's primary source of revenue; and
- For the three months of July, August and September 2005 the mining operations were fully consolidated and diamond sales were the primary source of revenue.

The balance sheets of the various companies that hold the mining assets have been fully consolidated as opposed to prior periods where they did not reflect.

For the reasons outlined above, comparisons with prior periods are not appropriate.

Diamond sales of R2,46 million were achieved over three months from Simolotse Mine. This compares to on mine costs of R10,12 million for the three months. Included in these on-mine costs are non-cash items of R1,83 million inventory write down and R1,75 million of depreciation, leaving a monthly on mine cash cost of R2,1 million. Current on mine costs are disproportionately large relative to the current levels of production at Simolotse as production levels are expected to increase from their current levels of 4 000 tonnes per month to more than double that with the No 2 shaft operational.

As part of the process of acquiring the mining assets, a Scheme of Arrangement in terms of Section 311 of the Companies Act (Act no 61 of 1969) ("the Scheme") was entered into with the creditors of the mining assets. The approval of the Scheme resulted in the settlement of most creditors for 20 cents in the Rand. The result of this was a net profit of R17,34 million which is reflected in full under "Other Income" in the Income Statement and an impairment of a loan from Rex Mining of R11,62 million which is reflected in full in "Operating Expenses". The net effect is a profit on the Scheme of R5,72 million before tax.

The result is a net loss before tax of R5,56 million. The relatively small positive tax charge is due to the capital gains tax incurred on the profit on the Scheme.

Shares in issue increased by almost 50% during the period due to the acquisition and further capital raisings; increasing the weighted average number of shares in issue from 143 million to 187 million. Accordingly, net loss attributable to shareholders of R6,37 million equates to a loss of 3.40 cents per share. Headline earnings however, which exclude the impairment of the loan to Rex Mining, show earnings of 4.15 cents per share.

Short-term loans on the balance sheet of R8,1 million relate to three separate loans. The first was to an AIM listed diamond exploration company, Xceldiam Limited of R2,99 million which was repaid subsequent to year end. The second is to Rex Mining of R2,5 million, the repayment of which is imminent. The third is a further loan to Rex Mining of R3,40 million which is secured against the future royalties owing to Rex Mining in terms of the purchase price of the mining assets.

Trade and other payables of R20,36 million relate predominantly to R11,62 million worth of creditors arising from the Scheme and ordinary creditors at Simolotse of R6,04 million.

28 December 2005
Melrose Arch

Afgem Limited (Formerly African Gem Resources Limited) (Incorporated in the Republic of South Africa) (Registration No. 1998/007292/06) Share code: AFG ISIN code: ZAE000067757 ("Afgem" or "the Company") **Sponsor:** Absa Corporate and Merchant Bank – Corporate Finance. A division of ABSA Bank Limited. Reg no 1986/004794/06.