

**African Gem Resources Limited**  
**(Incorporated in the Republic of South Africa)**  
**(Registration number 1998/007292/06)**  
**JSE code: AFG ISIN: ZAE 000025540**  
**("Afgem" or "the Company")**  
**to be renamed Afgem Limited**

**Preliminary audited annual results for the period ended 31 March 2005**

In December 2004 the Company changed its year end from December to March, accordingly these results are for the fifteen months ended 31 March 2005 for Afgem and Afgem Diamonds (Pty) Ltd, its wholly owned subsidiary company (collectively "the Group"). Comparative figures reflect the nine month period to 31 December 2003. Afgem sold its tanzanite assets and business to Tanzanite One SA Limited at the end of May 2004; as such these results incorporate the results of the tanzanite business for the five months to 31 May 2004.

**Corporate developments**

It was announced in August 2004 that Afgem had, subject to the fulfillment of certain conditions precedent, entered into an agreement with the Canadian listed company, Rex Diamond Corporation Limited ("Rex Corporation") and its subsidiaries in respect of an acquisition by Afgem of the entire issued share capital of and claims on loan accounts against Bellsbank Consolidated Diamond Mine (Proprietary) Limited ("Bellsbank"), Loxton Exploration (Proprietary) Limited ("Loxton") and Rex Diamond Corporation (Proprietary) Limited ("Rex Diamond Mine") (collectively the "Mining Companies"), as well as a management and loan agreement the details of which are as follows:

**Management agreement**

Afgem entered into an agreement with Rex Corporation and certain of its subsidiaries to manage its mining companies which hold the licence to mine various kimberlite-fissure properties near Barkley-West in the Northern Cape Province. The management agreement is ongoing and Afgem charges a management fee of R1 million per month in terms of this agreement. Accordingly, these annual financial statements include management fees earned for the eight months to end March 2005;

**Loan agreement**

Afgem entered into an agreement with, inter alia, Rex Corporation to lend R5 million to Rex Mining Corporation Limited ("Rex Mining"), a wholly-owned South African subsidiary of Rex Corporation.

To facilitate the acquisition, a Scheme of Arrangement in terms of Section 311 of the South African Companies Act, No 61 of 1973, was proposed by Afgem between Loxton, Bellsbank, Rex Diamonds, Rex Mining and their creditors. A scheme meeting was held on 31 March 2005 and was subsequently sanctioned by the High Court in April 2005. To this end, Afgem has committed to settle all creditor claims against the abovementioned companies to the extent of 20 cents for every R1, 00 owed. A payment of 30 cents will be made to certain preferential creditors. The first settlement of these liabilities was paid in April 2005 and the additional 10c in the Rand to preferential creditors is payable in April 2006.

In terms of the sale of shares agreement with Rex Corporation, the entire issued share capital of and claims on loan accounts against the Mining Companies will be acquired for a consideration of approximately R60 million. The purchase consideration will be discharged as follows:

- R2,5 million thereof in cash, which shall be set-off against R5 million of the amount that is owed to the Company by Rex Mining in terms of a loan agreement. The loan is interest free and repayable on 5 days notice only after 2 August 2005;
- R25 million thereof through the issue of 50 million ordinary shares in the Company at an issue price of 50 cents each; and
- the balance by paying Rex Mining four percent of the gross revenue on rough diamond sales by the Mining Companies for the period commencing on 1 January 2006 and ending on 31 December 2021, to which a net present value of approximately R32,5 million has been attributed using a discount rate of 12,5%.

In March 2005 the Company announced that it was in negotiations with certain black economic empowerment parties to acquire a significant stake in the Company. Subsequently, the Company reached agreement with the trustees of a trust formed specifically for the purpose of empowering the Company ("the BEE Trust"). The BEE Trust will, after the acquisition discussed above, represent 26% of the total issued share capital of the Company. The beneficiaries of the BEE Trust will initially include Afgem's historically disadvantaged employees, the bulk of whom are employed in Barkley West, and Simeka Mining Consortium ("Simeka"). Simeka has been mandated by Afgem to procure the establishment of a BEE Consortium which will acquire a significant beneficial interest in the BEE Trust. The BEE Consortium will represent a broader grouping of historically disadvantaged South Africans.

In order to provide further funding to conduct and develop the mining operations at the Mining Companies, Afgem has secured an equity line of credit to the extent of US \$1million. The equity line of credit has been provided by Firebird Asset Management, a US based fund manager, who at 31 March 2005 was a 12.4% shareholder of Afgem.

So as to facilitate the issue of shares necessary to effect the acquisition, the empowerment transaction, the equity line of credit and enable the Group to acquire new assets or raise new capital in future, it has been proposed to shareholders that the authorised share capital of the Company be increased from 250 000 000 ordinary shares of 0,001 cent each to 500 000 000 ordinary shares of 0,001 cent each by the creation of 250 000 000 new ordinary shares of 0,001 cent each.

The issues outlined above are the subject of a meeting of shareholders to be held on Friday 17 June 2005. The results of this meeting will be published on 20 June 2005.

### **Operational developments**

In August 2004, Afgem assumed management control of the Mining Companies. Of these only Loxton is operational; whereas Bellsbank and Rex Diamonds are on care and maintenance. The Loxton mine is located along a six kilometre kimberlitic fissure formation and is presently mining at depths of nearly 500 metres. When Afgem took over management control, Loxton was operating two of its numerous shafts; namely du Plessis and Ardo. In August 2004, the winder at the Ardo Shaft was condemned and production subsequently ceased at that shaft as personnel could not be conveyed down the shaft. A refurbished winder was sourced and is due to be delivered to the mine by end-June 2005. New civils have been laid in advance of this and work has commenced on the winder house. It is planned that the Ardo Shaft will be fully re-commissioned by mid July 2005.

By 31 March 2005, Loxton participated in two rough diamond auctions and has sold 3 026 carats of diamonds recovered from underground ore, previously stockpiled material and tailings at an average price of US\$ 153/ carat. Recent sales have yielded significantly higher prices. Grade increased in the last three months of the period as increasing quantities of material from underground sources are treated at the expense of older, more diluted stockpiled material. This trend is expected to continue in the forthcoming year.

Bellsbank and Rex Diamonds remain on care and maintenance and Afgem has not undertaken any further work on these assets. The licenses of these properties are in the process of being upgraded to new order licences, whereupon, assuming conversion, geological exploration programmes will start with a view to re-commencing mining operations.

In March 2005 an agreement was reached with the National Union of Mineworkers to change the working hours at the mine to two ten-hour shifts. This change is progressing well and will be reviewed in September 2005.

A major cost cutting programme was implemented during the period under review. Despite moderate increases in salaries being granted to certain sectors of the workforce, costs have been reduced considerably. Prior to August 2004, the operating costs of Loxton were approximately R3 million per month. By March 2005 these had been reduced to approximately R2 million and it is anticipated that operational costs will stabilize at approximately R1.5 million per month.

### **Notification of change of registered address**

Shareholders are hereby notified that the Company's registered address has changed, with immediate effect, to 381 Ontdekkers Road, Florida Park Ext 3, Roodepoort, 1709. The Company's physical address remains unchanged.

## Annual Financial Statements

### Statement of compliance

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB"). These are the Group's first consolidated annual financial statements prepared in terms of IFRS and IFRS 1 has been applied. In the past, the Group has prepared annual financial statements in terms of South African Statements of Generally Accepted Accounting Practice (SA GAAP). No significant differences between IFRS and SA GAAP were identified during the conversion process

### Audited results

The preliminary results for the 15 months ended 31 March 2005 have been audited by the Company's auditors, KPMG Inc. Their audit report is available for inspection at the Company's new registered address and its physical address.

## Income statements

for the period ended 31 March 2005

	Group		Company	
	Fifteen months ended 31 Mar 2005 R'000	Nine months ended 31 Dec 2003 R'000	Fifteen months ended 31 Mar 2005 R'000	Nine months ended 31 Dec 2003 R'000
Revenue	48,236	72,659	11,760	6,466
Cost of sales	(6,674)	(25,977)	–	–
<b>Gross profit</b>	<b>41,562</b>	<b>46,682</b>	<b>11,760</b>	<b>6,466</b>
Operating expenses	(31,590)	(38,641)	(4,705)	(29,506)
<b>Operating profit/(loss) before net financing (cost)/income</b>	<b>9,972</b>	<b>8,041</b>	<b>7,055</b>	<b>(23,040)</b>
Net financing (cost)/income	(42)	(1,121)	815	99
Profit on sale of tanzanite business	88,467	–	88,467	–
<b>Profit/(loss) before tax</b>	<b>98,397</b>	<b>6,920</b>	<b>96,337</b>	<b>(22,941)</b>
Income tax (expense)/refund	(17,568)	5,270	(15,636)	4,773
<b>Profit/(loss) for the period</b>	<b>80,829</b>	<b>12,190</b>	<b>80,701</b>	<b>(18,168)</b>
<b>Attributable to:</b>				
Equity holders of the parent	80,492	12,173		
Minority interest	337	17		
<b>Profit for the period</b>	<b>80,829</b>	<b>12,190</b>		
Basic earnings per share (cent/share)	56,2	8,7		
Diluted earnings per share (cent/share)	56,2	8,4		
Headline (loss)/earnings per share (cent/share)	(1,5)	8,7		
Diluted headline (loss)/earnings per share (cent/share)	(1,5)	8,4		

**Balance sheets**  
at 31 March 2005

	Group		Company	
	31 Mar 2005 R'000	31 Dec 2003 R'000	31 Mar 2005 R'000	31 Dec 2003 R'000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	2,693	92,578	–	1,033
Interest in subsidiaries	–	–	–	23,838
Loans to Group companies	–	–	23,428	84,524
Long-term loans receivable	27,493	–	9,120	–
Deferred tax assets	–	12,549	–	4,773
<b>Total non-current assets</b>	<b>30,186</b>	<b>105,127</b>	<b>32,548</b>	<b>114,168</b>
<b>Current assets</b>				
Inventories	–	28,891	–	–
Income tax receivable	–	3,026	–	–
Short-term loans receivable	4,635	–	–	–
Trade and other receivables	229	12,956	13	52
Cash and cash equivalents	3,115	49,213	3,351	5,170
<b>Total current assets</b>	<b>7,979</b>	<b>94,086</b>	<b>3,364</b>	<b>5,222</b>
<b>Total assets</b>	<b>38,165</b>	<b>199,213</b>	<b>35,912</b>	<b>119,390</b>
<b>Equity</b>				
Issued share capital	1	1	1	1
Share premium	1,623	131,040	1,623	131,040
Retained earnings/ (Accumulated loss)	27,230	31,335	27,230	(13,121)
<b>Total equity attributable to equity holders of the parent</b>	<b>28,854</b>	<b>162,376</b>	<b>28,854</b>	<b>117,920</b>
Minority interest	–	159,815	–	–
<b>Total equity</b>	<b>28,854</b>	<b>162,536</b>	<b>28,854</b>	<b>117,920</b>
<b>Non-current liabilities</b>				
Interest-bearing borrowings	1,461	16,744	–	–
Provisions	–	544	–	–
Deferred tax liabilities	–	9,402	–	–
<b>Total non-current liabilities</b>	<b>1,461</b>	<b>26,690</b>	<b>–</b>	<b>–</b>
<b>Current liabilities</b>				
Interest-bearing borrowings	450	3,359	–	–
Short-term loans payable	668	–	668	–
Income tax payable	5,906	–	5,819	–
Trade and other payables	826	6,628	571	1,470
<b>Total current liabilities</b>	<b>7,850</b>	<b>9,987</b>	<b>7,058</b>	<b>1,470</b>
<b>Total equity and liabilities</b>	<b>38,165</b>	<b>199,213</b>	<b>35,912</b>	<b>119,390</b>

**Statements of changes in equity**  
for the period ended 31 March 2005

	Issued share capital R'000	Share premium R'000	Retained earnings / (accumulated loss) R'000	Total equity attributable to equity holders of the parent R'000	Minority interest R'000	Total equity R'000
<b>Group</b>						
<b>Balance at 31 March 2003</b>	1	112,028	19,162	131,191	1,973	133,164
Ordinary share capital issued	–	19,012	–	19,012	–	19,012
Minority interest acquired	–	–	–	–	(1,830)	(1,830)
Profit/minority interest for the period	–	–	12,173	12,173	17	12,190
<b>Balance at 31 December 2003</b>	1	131,040	31,335	162,376	160	162,536
Ordinary share capital issued	–	1,623	–	1,623	–	1,623
Profit for the period	–	–	80,492	80,492	337	80,829
Dividends declared on sale of tanzanite business	–	–	(40,350)	(40,350)	–	(40,350)
Capital dividends distributed to shareholders on sale of tanzanite business	–	(131,040)	–	(131,040)	–	(131,040)
Disposal of subsidiaries	–	–	(44,247)	(44,247)	(497)	(44,744)
<b>Balance at 31 March 2005</b>	<b>1</b>	<b>1,623</b>	<b>27,230</b>	<b>28,854</b>	<b>–</b>	<b>28,854</b>
<b>Company</b>						
<b>Balance at 31 March 2003</b>	1	112,028	5,047	117,076	–	117,076
Ordinary share capital issued	–	19,012	–	19,012	–	19,012
Loss for the period	–	–	(18,168)	(18,168)	–	(18,168)
<b>Balance at 31 December 2003</b>	1	131,040	(13,121)	117,920	–	117,920
Ordinary share capital issued	–	1,623	–	1,623	–	1,623
Profit for the period	–	–	80,701	80,701	–	80,701
Dividends declared on sale of tanzanite business	–	–	(40,350)	(40,350)	–	(40,350)
Capital dividends distributed to shareholders on sale of tanzanite business	–	(131,040)	–	(131,040)	–	(131,040)
<b>Balance at 31 March 2005</b>	<b>1</b>	<b>1,623</b>	<b>27,230</b>	<b>28,854</b>	<b>–</b>	<b>28,854</b>

## Cash flow statements

for the period ended 31 March 2005

	Group		Company	
	Fifteen months ended 31 Mar 2005 R'000	Nine months ended 31 Dec 2003 R'000	Fifteen months ended 31 Mar 2005 R'000	Nine months ended 31 Dec 2003 R'000
<b>Cash flows from operating activities</b>				
Cash generated by /(utilised in) operations	3,131	16,125	3,804	(2,866)
Net financing (cost)/income	(42)	(1,120)	815	99
Taxation (paid)/refunded	(5,581)	3,157	(5,043)	1,178
Dividends paid	(13,772)	–	(13,772)	–
<b>Net cash (utilised in)/generated by operations</b>	<b>(16,264)</b>	<b>18,161</b>	<b>(14,196)</b>	<b>(1,589)</b>
<b>Cash flows from investing activities</b>				
Cash proceeds on sale of subsidiaries	4,495	–	4,495	–
Proceeds on disposal of property, plant and equipment	–	153	–	152,503
Net acquisition of subsidiaries	–	(1,831)	–	(19,013)
Acquisition of property, plant and equipment	(984)	(23,580)	(68)	–
<b>Net cash from investing activities</b>	<b>3,511</b>	<b>(25,258)</b>	<b>4,428</b>	<b>(18,860)</b>
<b>Cash flows from financing activities</b>				
Proceeds from the issue of share capital	1,622	19,012	1,622	19,012
Loans to subsidiaries	–	–	14,780	2,061
Long-term loans paid	(598)	–	–	–
Long-term loans granted	(27,493)	–	(9,120)	–
Short-term loans received	668	–	668	–
Short-term loans granted	(4,635)	–	–	–
Repayment of interest-bearing borrowings	(2,909)	(450)	–	(101)
<b>Net cash from financing activities</b>	<b>(33,345)</b>	<b>18,562</b>	<b>7,950</b>	<b>20,972</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(46,098)</b>	<b>11,466</b>	<b>(1,819)</b>	<b>523</b>
Cash and cash equivalents at beginning of period	49,213	37,747	5,170	4,647
<b>Cash and cash equivalents at end of period</b>	<b>3,115</b>	<b>49,213</b>	<b>3,351</b>	<b>5,170</b>

The calculation of headline earnings per share at 31 March 2005 was based on a headline loss of R2,155,884 (headline earnings of R12,172,687 – 31 December 2003) and a weighted average number of ordinary shares outstanding during the period ended 31 March 2005 of 143,361,169 (139,951,637 – 31 December 2003), calculated as follows:

	<b>Group 31 Mar 2005 R'000</b>	<b>Group 31 Dec 2003 R'000</b>
Reconciliation of earnings to headline earnings		
Profit attributable to ordinary shareholders	<b>80,492</b>	12,173
Adjusted for:		
Profit on sale of tanzanite business	<b>(88,467)</b>	–
Taxation effect on profit on sale of tanzanite business	<b>5,819</b>	–
Headline (loss)/earnings	<u><b>(2,156)</b></u>	<u>12,173</u>
<b>Weighted average number of shares</b>		
Effect of ordinary shares in issue at beginning of period	<b>142,256</b>	129,581
Effects of shares issued during the previous period	–	10,371
Effect of shares issued on 14 April 2004	<b>193</b>	–
Effect of shares issued on 14 May 2004	<b>912</b>	–
	<u><b>143,361</b></u>	<u>139,952</u>

For and on behalf of the board  
KA Rayner  
Chairman

MR Summers  
Group Financial Director

Johannesburg  
15 June 2005

Sponsor  
Java Capital (Proprietary) Limited

Independent reporting accountants  
KPMG Inc.