

82-4314

RECEIVED

2004 NOV 15 A 10:13

OFFICE OF INTERNATIONAL  
CORPORATE FINANCE

SUPPL



PROCESSED

NOV 17 2004

TECHNICAL  
FINANCIAL

B

**AFRIORE**

Management Discussion and Analysis  
August 31, 2004  
Unaudited, prepared by management

*JW 11/17*

## MANAGEMENT DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) for this interim period should be read in conjunction with the interim consolidated financial statements. It has been prepared with the understanding that all readers are already familiar with the MD&A for the fiscal period ended February 29, 2004, contained in the Company's Annual Report. The MD&A has been prepared to give shareholders an assessment of not only what the Company has accomplished in the past fiscal period but also of what management initiatives have been taken to increase shareholder value for the future.

### General

AfriOre is the operator of a specialized coal and anthracite mining business in South Africa through its 50% interest in the Springlake Joint Venture ("SLJV"). The production figures reported below represent the total colliery output. AfriOre's attributable share of the Springlake operation's figures in this section is 50%. All financial figures show AfriOre's proportionate 50% share of the joint venture.

### Results of Operations

The net loss for the three months ended August 31, 2004, was \$242,383 or \$0.01 per share (basic and diluted) compared to a net loss of \$996,261 or \$0.04 per share (basic and diluted) for the quarter ending August 31, 2004.

	Three months ended August 31,		Six months ended August 31	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Run-of-mine production, tonnes				
Underground	152,660	154,441	269,860	334,013
Open pit	<u>70,201</u>	<u>10,305</u>	<u>129,065</u>	<u>26,890</u>
	215,550	164,746	398,925	360,903
Recovery	68.4%	61.2%	70.0%	59.3%
Net production, tonnes	147,522	101,691	277,115	215,186
Sales, tonnes	149,871	175,667	309,359	280,170
Revenue attributable to AfriOre	\$3,827,044	\$2,525,235	\$6,878,896	\$4,307,635
Production costs attributable to AfriOre	\$(3,288,106)	\$2,788,055	\$(6,074,568)	\$4,192,129

The following comments pertain to the comparison of the current quarter to the same quarter last year.

At the SLJV's **coal operation** underground production is proceeding at levels similar to those of last year, however, there has been a substantial increase in the open pit production to meet increased sales demand and to establish a WIP (unwashed ROM tonnage) stockpile of in excess of 15,000 tonnes. Production costs increased due to mine salary and wage increases (average of 8%) in June and July. The impact of these increases has been reduced by the drawdown of in excess of 19,325 tonnes from the saleable stockpile. Sales revenues increased over the same period in the previous year by in excess of 51% due to sales price increases of between 6% and 10% as well as an increase in tonnage sold of in excess of 13,000 tonnes sized coal sales and in excess of 15,000 tonnes duff coal sales.

Other income and expenses have increased due to a reduction in interest expenditure as a result of an IDC loan and the deferred purchase price having been settled in April 2004, as well as a foreign exchange gain due to a short term weakness in the Rand in August 2004. However, in the medium term it is expected that margins will continue to be affected by the strong South African currency, Rand.

### Investing

Expenditures on the coal assets (\$40,817) have reduced compared to the same quarter last year (\$130,137). Capitalized exploration during the current quarter (\$885,393) is comparable to the same quarter last year (\$940,703). Capitalized exploration, however, for the financial year to date (\$1,606,112) is indicative of the urgency with which AfriOre is pursuing its exploration activities with significant gold

exploration being conducted in South Africa (FSC), Mali (Banakoro), Kenya (Siaya and Ndori) and Namibia (Capricorn).

### **Financing**

Capital repayments on the Tweewaters Fuel (Pty) Limited loan from the IDC commence on the November 1, 2004. No common shares or options were issued during the quarter with the previously reported position remaining unchanged.

### **Cash Flow and Liquidity**

Cash decreased by (\$1,088,236) in the quarter to \$2,842,969 as at August 31, 2004. Net current assets decreased to \$1,343,192 from \$2,480,478 as at May 31, 2004. The decrease is due a reduction in cash, increase in receivables and an increase in accounts payable. An improvement is shown when doing a comparative analysis with the same period, August 31, 2003, when net current assets stood at \$822,207. The decrease in net current assets during the reported quarter is primarily due to increased spending in the anthracite operation.

### **Exploration projects developments**

AfriOre received encouraging results on several of the gold exploration projects during the quarter.

In Mali, exploration has continued on the Banankoro joint venture area. AfriOre's second phase of diamond drilling, which commenced during the previous quarter, continued into this quarter. Eleven additional holes, totaling approximately 2,300 metres, were drilled to test the down-plunge continuation of the higher grade zone at Bagama and several magnetic anomalies identified by the recently completed airborne magnetic and radiometric survey. This has extended the length of the higher grade zone and identified targets for follow-up drilling.

During the quarter, interpretation of data from range-finding Drill hole 47 on AfriOre's FSC Witwatersrand gold project confirmed the position of two priority targets for follow up drilling. The planned drill hole sites are located within large structural blocks which have good potential to host Witwatersrand sediments at depths of between 1,100 and 1,700 metres.

In Kenya, AfriOre's first phase of percussion drilling continued on the Masumbi gold target. Sixty- seven holes, comprising some 2,100 metres of drilling, were drilled to a maximum depth of approximately 50 metres over a strike length of approximately 750 metres. The drilling pattern consisted of seven fences of holes oriented across strike in an "heel-to-toe" configuration. The results were supplemented by a limited trenching and sampling program and a ground magnetic survey. This work has led to the discovery of previously unknown, widespread gold mineralization within Nyanzian volcanics and intrusive granitoids. Initial drilling results indicate the presence of multiple zones of vein-associated gold mineralization over a strike length and width of some 750 metres and 130 metres respectively. Follow-up drilling is planned to test continuity of better mineralized areas and possible extensions of this large system below thin, surficial cover. Elsewhere on the Kenyan project area, regional prospecting continued on previously identified targets.

In Namibia, gridding and 33 line kilometres of induced polarization ground, geophysical surveys were carried out over five magnetic anomalies which were identified by interpretation of high resolution geophysical data. Initial diamond drilling commenced and four holes, for a total of approximately 670 metres of drilling, were completed on selected portions of two geophysical anomalies. Further work is being carried out to select drill targets with the potential for vein-hosted gold mineralization in near surface, shallow dipping Damaran lithologies, of the type discovered at the nearby Otjikoto gold deposit.

## **Outlook**

We anticipate that the strength of the Rand, particularly against the US Dollar, will persist throughout the year, adversely affecting margins on export sales. AfriOre has taken remedial action and has reduced its workforce numbers by 22% to counteract the pressure on margins and in an effort to continue to balance production levels with demand. We will continue to pursue our gold exploration program and review new precious metal projects. Negotiations are ongoing regarding the sale of the anthracite operations.

*This quarterly report contains forward-looking statements based on current expectations. These forward-looking statements entail various risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Risk and uncertainties about the Company's business are more fully discussed in the Management Discussion and Analysis published in the Company's Annual Report and in AfriOre's Annual Information Form.*



**AFRI ORE LIMITED**

Consolidated Interim Financial Statements  
Expressed in Canadian Dollars  
August 31, 2004  
Unaudited, prepared by management

These unaudited consolidated financial statements of AfriOre Limited (the "Company") have not been reviewed by the auditors of the Company. This notice is being provided in accordance with section 4.3(3)(a) of National Instrument 51-102 Continuous Disclosure Obligations.

## AfriOre Limited

### Consolidated Balance Sheets Expressed in Canadian Dollars

		August 31, 2004 <u>(Unaudited)</u>	February 29, 2004 <u>(Audited)</u>
<b>Assets</b>	<b>Note</b>		
Current			
Cash and cash equivalents		\$ 1,679,102	\$ 3,000,502
Cash – project specific	3	1,163,867	1,398,660
Receivables		1,748,099	843,532
Inventories	4	1,593,088	2,185,165
Other		<u>283,060</u>	<u>312,104</u>
		6,467,216	7,739,963
Coal assets	5	4,124,615	4,439,015
Property and equipment	6	54,962	65,109
Exploration properties	7	5,869,932	4,263,820
Trust funds	8	<u>549,845</u>	<u>443,249</u>
		<u>\$ 17,066,570</u>	<u>\$ 16,951,156</u>
<b>Liabilities</b>			
Current			
Taxes payable		\$ 25,886	\$ 21,109
Accounts payable and accrued liabilities		2,037,751	1,611,221
Due to bank and short-term loan		292,360	191,356
Debenture liability	9	1,487,668	1,415,138
Current portion of advances	3	1,163,867	1,398,660
Current portion of debt	10	<u>116,492</u>	<u>1,006,338</u>
		<u>5,124,024</u>	<u>5,643,822</u>
Long term			
Long term portion of debt	10	874,008	-
Long term portion of advances	3	1,504,919	1,013,932
Deferred gain		1,811,413	1,905,992
Reclamation provision		881,223	900,350
Future income taxes		<u>1,289,593</u>	<u>1,185,596</u>
		<u>6,361,156</u>	<u>5,005,870</u>
<b>Shareholders' Equity</b>	11	<u>5,581,390</u>	6,301,464
		<u>\$17,066,570</u>	<u>\$ 16,951,156</u>

See accompanying notes to the consolidated financial statements.

# AfriOre Limited

## Unaudited, Consolidated Statements of Operations and Deficit Expressed in Canadian Dollars

	Three months ended, August 31,		Six months ended August 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>Coal operation</b>				
Revenue	\$ 3,827,044	\$ 2,525,235	\$ 6,878,896	\$ 4,307,635
Production costs	(3,288,106)	(2,788,055)	(6,074,568)	(4,192,129)
Depreciation and amortization	(177,177)	(143,251)	(329,810)	(311,339)
	<u>361,761</u>	<u>(406,071)</u>	<u>474,518</u>	<u>(195,833)</u>
<b>Other income and expenses</b>				
Other income	194,076	171,411	385,205	353,711
Interest expense	(75,314)	(99,149)	(136,301)	(141,833)
Gain (loss) on foreign exchange	21,681	(3,451)	15,833	(22,519)
Amortization of deferred purchase price	(471)	(31,291)	(25,959)	(63,238)
	<u>139,972</u>	<u>37,520</u>	<u>238,778</u>	<u>126,121</u>
<b>Corporate and exploration expenses</b>				
Administrative & project management costs	(706,369)	(589,898)	(1,251,591)	(1,219,874)
Exploration and project evaluation	(11,548)	(28,459)	(25,626)	(70,073)
Depreciation and amortization	(7,842)	(9,353)	(17,675)	(17,394)
Write down of other assets and gains (losses) on asset disposal	(46)	-	(2,530)	-
	<u>(725,805)</u>	<u>(627,710)</u>	<u>(1,297,422)</u>	<u>(1,307,341)</u>
Income (loss) before taxes	(224,072)	(996,261)	(584,126)	(1,377,053)
Income taxes	18,311	-	118,125	-
<b>Net income (loss)</b>	<u>\$ (242,383)</u>	<u>\$ (996,261)</u>	<u>\$ (702,251)</u>	<u>\$ (1,377,053)</u>
<b>Basic income (loss) per share</b>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>
<b>Diluted income (loss) per share</b>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>
Deficit, beginning of period, as previously reported	\$ (21,232,348)	\$ (17,590,393)	\$ (20,109,007)	\$ (17,232,040)
Change in accounting policy for stock based compensation	-	-	(663,473)	-
Deficit, beginning of period, as restated	(21,232,348)	(17,590,393)	(20,772,480)	(17,232,040)
Profit (loss) for the period	(242,383)	(996,261)	(702,251)	(1,377,053)
Accretion of debenture (note 9)	72,530	34,146	72,530	56,585
Deficit, end of period	<u>\$ (21,402,201)</u>	<u>\$ (18,552,508)</u>	<u>\$ (21,402,201)</u>	<u>\$ (18,552,508)</u>

See accompanying notes to the consolidated financial statements.

# AfriOre Limited

## Unaudited, Consolidated Statements of Cash Flows Expressed in Canadian Dollars

	Three month ended August 31,		Six months ended August 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Cash derived from (applied to):				
<b>Operating Activities</b>				
Net income (loss)	\$ (242,383)	\$ (996,261)	\$ (702,251)	\$(1,377,053)
Items not affecting cash:				
Future taxes	19,941		119,756	
Write down of other assets and (gains)/ losses on disposal of assets	46	-	2,530	-
Amortization of deferred gain	(47,289)	(47,289)	(94,578)	(94,578)
Amortization of deferred purchase price	472	31,291	25,960	63,238
Depreciation and amortization	185,021	152,604	347,486	328,733
Debt interest	37,398	37,808	74,795	61,233
Compensation expense	-	-	-	53,349
Other	61,780	(21,011)	26,615	(28,301)
Net operating working capital changes	<u>(358,970)</u>	<u>985,708</u>	<u>114,850</u>	<u>634,178</u>
	<u>(343,984)</u>	<u>142,850</u>	<u>(84,837)</u>	<u>(359,201)</u>
<b>Investing Activities</b>				
Deferred purchase price paid	-	-	(990,500)	
Coal assets	(40,817)	(130,137)	(95,784)	(254,962)
Property and equipment	(3,897)	(1,172)	(5,952)	(3,582)
Exploration properties	<u>(885,393)</u>	<u>(940,703)</u>	<u>(1,606,112)</u>	<u>(1,179,550)</u>
	<u>(930,107)</u>	<u>(1,072,012)</u>	<u>(2,698,348)</u>	<u>(1,438,094)</u>
<b>Financing Activities</b>				
Common shares issued for cash	-	62,500	42,250	1,115,334
Environmental trust account	(63,004)	(1,642)	(120,962)	(15,419)
Long term advances – WBPM	9,070	-	256,193	
Short term loan-advance	-	(24,425)	-	158,705
Operating loan-repayments	-	(113,854)	-	(194,518)
Operating loan-advances	-	-	990,500	
Capital lease obligations	(366)	(30,612)	(20,181)	(61,706)
Bank overdraft	301,285	-	109,551	
Debt interest	-	-	-	1,500,000
	<u>246,985</u>	<u>(108,033)</u>	<u>1,257,351</u>	<u>2,502,396</u>
Foreign exchange impact on cash balances	(414)	9,891	(30,357)	7,418
Increase (decrease) in cash and cash equivalents during the period	(1,088,236)	(1,027,304)	(1,556,193)	712,519
Cash and cash equivalents, beginning of period	<u>3,931,205</u>	<u>3,077,816</u>	<u>4,399,162</u>	<u>1,337,993</u>
Cash and cash equivalents, end of period	<u>\$ 2,842,969</u>	<u>\$ 2,050,512</u>	<u>\$ 2,842,969</u>	<u>\$ 2,050,512</u>

See accompanying notes to the consolidated financial statements

NOTES TO THE UNAUDITED, CONSOLIDATED FINANCIAL STATEMENTS  
For the six month periods ended August 31, 2004 and 2003

---

**1. ACCOUNTING POLICIES**

The unaudited, consolidated financial statements of AfriOre Limited (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting principles and methods of application as those disclosed in note 2 of the Company's consolidated financial statements for the period ended February 29, 2004. These interim financial statements should be read in conjunction with the consolidated financial statements and notes for the year ended February 28, 2004 included in the Company's 2004 Annual Report. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year ending February 28, 2005.

**2. ADOPTION OF NEW ACCOUNTING POLICIES**

**Stock-Based Compensation Plans**

Effective March 1, 2004, the Company has adopted the recommendations of revised Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, "Stock-based compensation and other stock-based payments", which now requires the Company to adopt the fair value based method for all stock-based awards granted on or after March 1, 2002.

This change in accounting policy has been adopted retroactively to March 1, 2002. Previously, the Company was only required to disclose in the notes to the consolidated financial statements the pro forma effect of compensation in respect of stock options granted to employees and directors after March 1, 2002. In accordance with the CICA handbook, section 3870, only stock options granted on, or after, the initial adoption date of section 3870 are recognized in the financial statements. No compensation expense is recorded for stock options awarded and outstanding prior to March 1, 2002.

The fair value of the options granted is estimated at the date of the grant using the Black-Scholes valuation model. There was no effect on the results reported in the second quarter of fiscal 2005 as there were no employees' or directors' options granted or exercised in those periods.

**3. CASH – PROJECT SPECIFIC**

In terms of the FSC gold project joint venture agreement, Wits Basin Precious Minerals Inc. ("WBPM") is to provide funding of up to US\$3.5-million. This funding is project specific and may only be spent on the FSC project. The amount of \$1,163,867 represents the cash balances held at August 31, 2004 that are specific to the FSC gold project.

Upon funding US\$2.1-million, WBPM may convert the advances to a 35% equity stake in the FSC project. Should AfriOre elect at any time to discontinue exploration expenditure, WBPM may elect to have any project specific cash balances on hand at that time refunded to them. The portion of total advances made to date that WBPM may withdraw in cash is shown as a current liability.

	<b>August 31, 2004</b>	February 29, 2004
WBPM		
Advances	\$ 2,668,786	\$ 2,412,592
Less classified as current	<u>1,163,867</u>	<u>1,398,660</u>
Long-term portion	<u>\$ 1,504,919</u>	<u>\$ 1,013,932</u>

NOTES TO THE UNAUDITED, CONSOLIDATED FINANCIAL STATEMENTS  
 For the six month periods ended August 31, 2004 and 2003

**4. INVENTORIES**

Inventories are comprised of the following:

	<b>August 31, 2004</b>	February 29, 2004
Coal (50%)	<b>\$ 1,075,636</b>	\$ 1,701,601
Materials and supplies (50%)	<u>517,452</u>	<u>483,564</u>
50% Attributable to AfriOre	<u><b>\$ 1,593,088</b></u>	<u>\$ 2,185,165</u>

**5. COAL ASSETS**

	<b>August 31, 2004</b>			February 29, 2004
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
Plant and equipment	\$ 5,331,130	\$ (2,674,120)	\$ 2,657,011	\$ 2,920,790
Mineral properties	<u>1,772,689</u>	<u>(305,085)</u>	<u>1,467,604</u>	<u>1,518,225</u>
	<u><b>\$ 7,103,819</b></u>	<u><b>\$ (2,979,204)</b></u>	<u><b>\$ 4,124,615</b></u>	<u><b>\$ 4,439,015</b></u>

**6. PROPERTY AND EQUIPMENT**

	<b>August 31, 2004</b>			February 29, 2004
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
Office equipment and furniture	\$ 140,634	\$ (102,026)	\$ 38,608	\$ 45,058
Vehicles	<u>42,934</u>	<u>(26,580)</u>	<u>16,354</u>	<u>20,051</u>
	<u><b>\$ 183,568</b></u>	<u><b>\$ (128,606)</b></u>	<u><b>\$ 54,962</b></u>	<u><b>\$ 65,109</b></u>

NOTES TO THE UNAUDITED, CONSOLIDATED FINANCIAL STATEMENTS  
For the six month periods ended August 31, 2004 and 2003

**7. EXPLORATION PROPERTIES**

	February 29, <u>2004</u>	Additions	August 31, <u>2004</u>
South Africa-FSC (Gold)	\$ 1,362,191	\$ 373,106	\$1,735,297
South Africa-Somkele (Coal)	1,467,635	96,336	1,563,971
South Africa-Dwaalboom (Gold)	128,373	26,193	154,566
Mali-Banankoro (Gold)	939,899	641,503	1,581,402
Kenya-Ndori (Gold)	139,261	159,221	298,482
Kenya-Siaya (Gold)	201,105	135,399	336,504
Namibia-Capricorn (Gold)	25,356	174,354	199,710
	<u>\$ 4,263,820</u>	<u>\$ 1,606,112</u>	<u>\$ 5,869,932</u>

**8. TRUST FUNDS AND RECLAMATION PROVISION**

The Company has an environmental reclamation trust fund in South Africa. Payments to the fund are made in accordance with statutory requirements. The costs of environmental reclamation at Tweewaters Fuel (Pty) Ltd ("TWF") are estimated annually by independent consultants and recorded in the balance sheet. The costs of ongoing programs to prevent and control pollution and to rehabilitate the environment are charged against income as incurred. Income on the monies paid to the trust fund is set off against the expense for the year.

The guarantee of R5.6-million (approximately \$1.11-million) together with the monies held in the trust fund, is sufficient to cover the outstanding reclamation liability.

The notional investment value represents the present value of the guaranteed funds after deduction of fees and finance costs.

	August 31, <u>2004</u>	February 29, <u>2004</u>
Cash in trust	\$ 347,048	\$ 340,623
Rehabilitation guarantee – notional investment	<u>202,797</u>	<u>102,626</u>
	<u>\$ 549,845</u>	<u>\$ 443,249</u>

**9. DEBENTURE LIABILITY**

On April 4, 2003 AfriOre raised gross proceeds of \$1,500,000 by issuing 1,500 units at \$1,000 per unit. Each unit consists of one \$1,000 principal amount debenture and 1,000 common share purchase warrants. The debentures have a term of 18 months. The interest rate on the debentures is 10% per annum, payable semi-annually in common shares based on a price per share equal to the greater of \$0.55 and the weighted average trading price per share for the 20 consecutive trading days ending on the third trading day prior to the date on which interest is payable less the maximum applicable discount permitted by the Toronto Stock Exchange. The debentures represent the senior debt of AfriOre Limited and are secured by a pledge of all the securities of AfriOre International (Barbados) Limited, a wholly owned subsidiary. The debentures are redeemable by AfriOre at any time prior to maturity and accordingly are classified as a current liability.

NOTES TO THE UNAUDITED, CONSOLIDATED FINANCIAL STATEMENTS  
 For the six month periods ended August 31, 2004 and 2003

These debentures have been classified into debt and equity components in the financial statements. The portion of the obligation representing the value of AfriOre's right to satisfy the interest obligation with common shares amounts to \$211,524 over the life of the debenture. Accretion of \$72,530 for the period year to date has been presented as other paid-in equity in shareholders' equity. The equity component will accrete over the life of the debenture to ensure the carrying value of the debenture is equal to the value of the interest obligation being settled in shares. The financial liability component at August 31, 2004 has been shown as a debenture liability of \$1,487,668 classified as short-term and includes accrued accounting interest charges of \$199,192.

The accretion in quarter ending August 31, 2004 is shown as \$72,530 as no accretion was taking into account in the quarter ending May 31, 2004.

On September 24, 2004 the holders of \$1,100,000 senior secured debentures agreed to extend the maturity date from October 4, 2004 to November 3, 2004.

**10. DEBT**

Tweewaters Fuel (Pty) Limited ("TWF") obtained a credit facility from the Industrial Development Corporation of South Africa Limited ("IDC") for R10-million that was fully drawn down by April 30, 2004. The loan is secured by a pledge of the moveable assets of TWF and by the pledge of the shares of TWF held by AfriOre (South Africa) Limited. The loan bears interest at the South African prime overdraft rate and is repayable in 36 equal monthly instalments, the first of which shall be paid on November 1, 2004.

	<u>August 31, 2004</u>	February 29, 2004
Loans from IDC:		
Operating	\$ 990,500	\$ -
Finance		
lease	<u>-</u>	<u>19,776</u>
	<u>990,500</u>	<u>19,776</u>
Less classified as current:		
Operating	116,492	-
Finance		
lease	<u>-</u>	<u>19,776</u>
	<u>116,492</u>	<u>19,776</u>
	<u>\$ 874,008</u>	<u>\$ -</u>

NOTES TO THE UNAUDITED, CONSOLIDATED FINANCIAL STATEMENTS  
For the six month periods ended August 31, 2004 and 2003

**11. SHAREHOLDERS' EQUITY**

(a) Shareholders' equity is comprised as follows:

	<b>August 31, 2004</b>	February 29, 2004
Capital stock (Note 2)	<b>\$ 24,801,410</b>	\$ 24,673,903
Other paid-in equity	<b>36,525</b>	145,273
Agents options and compensation warrants	<b>140,975</b>	140,975
Employees and directors options (Note 2)	<b>626,948</b>	-
Warrants	<b>765,953</b>	776,418
Contributed surplus	<b>855,491</b>	855,491
Deficit (Note 2)	<b>(21,402,201)</b>	(20,109,007)
Cumulative translation adjustment	<b>(243,711)</b>	(181,589)
	<b><u>\$ 5,581,636</u></b>	<b><u>\$ 6,301,464</u></b>

(b) Capital stock

The authorized capital of the Company consists of an unlimited number of common shares without par value.

	<u>Shares</u>	<u>Amount</u>
<b>Balance February 28, 2003</b>	<b><u>25,359,887</u></b>	<b><u>\$ 21,654,764</u></b>
Private placement	4,801,390	1,977,718
Exercise of options (Note 2)	475,000	256,250
Exercise of warrants	604,827	472,115
Debenture interest	110,594	75,206
Exercise of agent options & compensation warrants	262,958	187,850
Property acquisition	<u>100,000</u>	<u>50,000</u>
<b>Balance February 29, 2004</b>	<b><u>31,714,656</u></b>	<b><u>\$ 24,673,903</u></b>
Exercise of warrants	65,000	52,715
Debenture interest	116,864	74,792
<b>Balance May 31, 2004</b>	<b><u>31,896,520</u></b>	<b><u>\$ 24,801,410</u></b>
Exercise of warrants	<u>0</u>	<u>0</u>
Debenture interest	<u>0</u>	<u>0</u>
<b>Balance August 31, 2004</b>	<b><u>31,896,520</u></b>	<b><u>\$ 24,801,410</u></b>

NOTES TO THE UNAUDITED, CONSOLIDATED FINANCIAL STATEMENTS  
For the six month periods ended August 31, 2004 and 2003

---

(c) Other paid in equity

The debentures have been classified into debt and equity components in the financial statements (see note 9). The portion of the obligation representing the value of the Company's right to satisfy the interest obligation with common shares of \$72,530 has been presented as other paid-in equity in shareholders' equity. The equity component will accrete over the life of the debenture to ensure the carrying value is equal to the value of the interest obligation being settled in shares.

(d) Agent Options and Compensation Warrants

On April 24, 2003 AfriOre granted a broker's compensation option to Standard Securities Capital Corp. ("Standard") in connection with the sale of units in a brokered private placement. The option enables a broker to purchase up to 8% of the units sold (137,958) in the private placement for \$0.58 per unit for a period of 12 months following the closing date. Each unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each of the 68,979 full warrants entitles the holder thereof to purchase one common share for a period of 18 months following the closing date at an exercise price of \$0.65 per share.

On April 30, 2003 AfriOre granted an advisory services compensation option to Standard enabling the holder to purchase 200,000 common shares of the Company at a price of \$0.59 per share. The option has a term of two years.

A value of \$0.184 was assigned to each compensation option, \$0.160 to each compensation option warrant and \$0.180 to each advisory services compensation option resulting in an amount of \$72,421, reduced by the value of warrants exercised, which has been presented as "Agent Options and Compensation Warrants" in shareholders' equity.

On September 25, 2003 AfriOre granted a broker's compensation warrant to Coniston Investment Corp. ("Coniston") in connection with the sale of units in a brokered private placement. The warrant enables the broker to purchase up to 8% of the units sold (246,153) in the private placement for \$0.80 per unit for a period of 18 months following the closing date. Each broker's compensation unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each of the 123,077 full warrants entitles the holder thereof to purchase one common share for a period of 18 months following the closing date at an exercise price of \$0.80 per share.

A value of \$0.314 was assigned to each compensation option and to each full compensation share purchase warrant resulting in an amount of \$115,938, reduced by the value of options exercised, which has been presented as "Agent Options and Compensation Warrants" in shareholders' equity.

(e) Warrants

On April 4, 2003 AfriOre raised gross proceeds of \$1,500,000 by issuing 1,500 units at \$1,000 per unit. Each unit consists of one \$1,000 principal amount debenture and 1,000 common share purchase warrants. The 1,500,000 warrants have a term of 24 months and are exercisable at a price of \$0.55. A value of \$0.169 was assigned to each warrant.

On April 24, 2003, AfriOre raised gross proceeds of \$1,000,200 in a brokered private placement. The private placement was for 1,724,482 units priced at \$0.58 per unit. Each unit is comprised of one common share of the Corporation and one-half of one common share purchase warrant. Each of the 862,241 full warrants entitles the holder thereof to purchase one common share for a period of 18 months following the closing date at an exercise price of \$0.65 per share. A value of \$0.161 was assigned to each warrant.

NOTES TO THE UNAUDITED, CONSOLIDATED FINANCIAL STATEMENTS  
 For the six month periods ended August 31, 2004 and 2003

---

On September 25, 2003, AfriOre raised gross proceeds of \$1,999,990 in a brokered private placement. The private placement was for 3,076,907 units priced at \$0.65 per unit. Each unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each of the 1,538,454 full warrants entitles the holder thereof to purchase one common share for a period of 18 months following the closing date at an exercise price of \$0.80 per share. A value of \$0.314 was assigned to each warrant.

	<u>Warrants</u>	<u>Weighted average price</u>
<b>Balance February 28, 2003</b>		
Granted	3,900,695	\$0.67
Exercised	<u>(604,827)</u>	<u>\$0.62</u>
<b>Balance February 29, 2004</b>	<b><u>3,295,868</u></b>	<b><u>\$0.68</u></b>
Exercised	<u>(65,000)</u>	<u>\$0.65</u>
<b>Balance Aug 31, 2004</b>	<b><u>3,230,868</u></b>	<b><u>\$0.53</u></b>

(f) Summary of Outstanding Options (Note 2)

	<u>Options</u>	<u>Weighted average price</u>
<b>Balance February 28, 2003</b>	<b><u>2,400,000</u></b>	<b><u>\$0.59</u></b>
Granted	670,000	\$0.82
Expired	(100,000)	\$0.80
Cancelled	(10,000)	\$0.54
Exercised	<u>(475,000)</u>	<u>\$0.54</u>
<b>Balance February 29, 2004</b>	<b><u>2,485,000</u></b>	<b><u>\$0.65</u></b>
	-	-
<b>Balance Aug 31, 2004</b>	<b><u>2,485,000</u></b>	<b><u>\$0.65</u></b>

NOTES TO THE UNAUDITED, CONSOLIDATED FINANCIAL STATEMENTS  
For the six month periods ended August 31, 2004 and 2003

At August, 31, 2004, the following options to acquire common shares of the Company are outstanding:

No. of Common Shares Subject to Option	Exercise Price	Expiry Date
10,000	\$0.80	April 19, 2005
75,000	\$0.50	May 25, 2005
275,000	\$0.50	Aug. 6, 2006
805,000	\$0.54	Aug. 16, 2006
75,000	\$0.60	Feb. 11, 2007
200,000	\$0.67	May 13, 2007
375,000	\$0.75	Sep 12, 2007
570,000	\$0.80	Jun 3, 2008
<u>100,000</u>	<u>\$0.91</u>	<u>Dec.17, 2008</u>
<u>2,485,000</u>		

All are exercisable immediately.

(g) Property Acquisition Agreements

At August 31, 2004, 390,000 common shares are issueable (February 29, 2004 – 390,000) by the Company for exploration properties if the properties reach an advanced stage.

**12. RELATED PARTY TRANSACTIONS**

Included in the accounts are payments made to companies under the control or significant influence of officers and directors. These transactions are recorded at the exchange amount, being the amount agreed to by the parties. A summary of these transactions follows:

	Three months ended		Six months ended	
	August 31,		August 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Administrative services <sup>1</sup>	\$ 77,250	\$ 77,250	\$ 154,500	\$ 154,500

1. AfriOre carries on business outside Canada. AfriOre purchases administrative, advisory and investor relations services from a company that shares a common director to assist in fulfilling its ongoing obligations as a reporting issuer listed for trading on a stock exchange in Canada. A contract effective August 2001 provides for monthly payments of \$25,750 by AfriOre. The contract has a term of two years and automatically renews for one year. AfriOre may terminate the agreement after the first year by either giving 12 months notice or 90 days notice and paying \$80,000. AfriOre is currently negotiating the extension of the agreement.

NOTES TO THE UNAUDITED, CONSOLIDATED FINANCIAL STATEMENTS  
 For the six month periods ended August 31, 2004 and 2003

---

**13. EARNINGS PER COMMON SHARE**

	Three months ended		Six months ended	
	August 31,		August 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>(i) Basic</b>				
Numerator				
Net earnings (loss) – income available to shareholders	\$ (242,383)	\$ (996,261)	\$ (702,251)	\$ (1,377,053)
Denominator				
Weighted average number of shares	31,896,520	27,380,003	31,871,917	26,900,549
Basic earnings per share	\$ (0.01)	\$ (0.04)	\$ (0.02)	\$ (0.05)
<b>(ii) Diluted</b>				
Net earnings – income available to shareholders				
	\$ (242,383)	\$ (996,261)	\$ (702,251)	\$ (1,377,053)
Denominator				
Weighted average number of shares	31,896,520	27,380,003	31,871,917	26,900,549
Diluted earnings per share	\$ (0.01)	\$ (0.04)	\$ (0.02)	\$ (0.05)
Average quoted market price	\$ 0.39	\$ 0.71	\$ 0.53	\$ 0.65

NOTES TO THE UNAUDITED, CONSOLIDATED FINANCIAL STATEMENTS  
For the six month periods ended August 31, 2004 and 2003

**14. SEGMENTED INFORMATION**

AfriOre's interest in the Springlake Joint Venture is its only reportable segment. The Springlake Joint Venture produces and markets anthracite.

	Three months ended August 31, 2004			Three months ended August 31, 2003		
	SLJV	Corporate and other	Total	SLJV	Corporate and other	Total
Revenues						
Domestic sales	\$ 1,567,097	\$ -	\$ 1,567,097	\$ 925,067	\$ -	\$ 925,067
Export sales	<u>2,259,947</u>	<u>-</u>	<u>2,259,947</u>	<u>1,600,168</u>	<u>-</u>	<u>1,600,168</u>
	3,827,044	-	3,827,044	2,525,235	-	2,525,235
Production costs	(3,288,106)	-	(3,288,106)	(2,788,055)	-	(2,788,055)
Depreciation and amortization	<u>(170,521)</u>	<u>(6,656)</u>	<u>(177,177)</u>	<u>(131,404)</u>	<u>(11,847)</u>	<u>(143,251)</u>
	368,417	(6,656)	361,761	(394,224)	(11,847)	(406,071)
Other income and expenses	68,228	71,744	139,972	(160,889)	198,409	37,520
Corporate and exploration expenses	<u>(55,113)</u>	<u>(670,692)</u>	<u>(725,805)</u>	<u>(30,768)</u>	<u>(596,943)</u>	<u>(627,710)</u>
Income (loss) before tax	381,532	(605,604)	(224,072)	(585,881)	(410,381)	(996,261)
Taxes (recovery)	<u>-</u>	<u>18,311</u>	<u>18,311</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ 381,532</u>	<u>\$ (623,915)</u>	<u>\$ (242,383)</u>	<u>\$ (585,881)</u>	<u>\$ (410,381)</u>	<u>\$ (996,261)</u>
Total assets:						
South Africa	8,690,779	2,636,223	11,327,002	8,352,404	2,038,196	10,390,600
Other Africa	-	2,416,098	2,416,098	-	802,994	802,994
Barbados	<u>-</u>	<u>3,323,470</u>	<u>3,323,470</u>	<u>-</u>	<u>1,711,416</u>	<u>1,711,416</u>
	<u>\$ 8,690,779</u>	<u>\$ 8,375,791</u>	<u>\$ 7,066,570</u>	<u>\$ 8,352,404</u>	<u>\$ 4,552,606</u>	<u>\$ 12,905,010</u>
Cash from operating activities	\$(597,455)	\$ 253,471	\$(343,984)	\$ 416,762	\$(273,909)	\$ 142,850
Cash from investing activities	(124,969)	(805,138)	(930,107)	(130,180)	(941,832)	(1,072,012)
Cash from financing activities	179,957	67,028	246,985	(170,533)	62,500	(108,033)

NOTES TO THE UNAUDITED, CONSOLIDATED FINANCIAL STATEMENTS  
For the six month periods ended August 31, 2004 and 2003

	Six months ended August 31, 2004			Six months ended August 31, 2003		
	SLJV	Corporate and other	Total	SLJV	Corporate and other	Total
Revenues						
Domestic sales	\$ 3,108,692	\$ -	\$ 3,108,692	\$2,115,287	\$ -	\$ 2,115,287
Export sales	<u>3,770,204</u>	-	<u>3,770,204</u>	<u>2,192,348</u>	-	<u>2,192,348</u>
	6,878,896	-	6,878,896	4,307,635	-	4,307,635
Production costs	(6,074,568)	-	(6,074,568)	(4,192,129)	-	(4,192,129)
Depreciation and amortization	<u>(311,307)</u>	<u>(18,503)</u>	<u>(329,810)</u>	<u>(287,644)</u>	<u>(23,695)</u>	<u>(311,339)</u>
	493,021	(18,503)	474,518	(172,138)	923,695	(195,833)
Other income and expenses	(121,680)	360,458	238,778	(362,088)	488,209	126,121
Corporate and exploration expenses	<u>(94,222)</u>	<u>(1,203,200)</u>	<u>(1,297,422)</u>	<u>(73,677)</u>	<u>(1,233,664)</u>	<u>(1,307,341)</u>
Income (loss) before tax	277,119	(861,245)	(584,126)	(607,903)	(769,150)	(1,377,053)
Taxes (recovery)	-	118,125	118,125	-	-	-
Net income (loss)	<u>\$ 277,119</u>	<u>\$ (979,370)</u>	<u>\$ (702,251)</u>	<u>\$ (607,903)</u>	<u>\$ (769,150)</u>	<u>\$ (1,377,053)</u>
Total assets:						
South Africa	8,690,779	2,636,223	11,327,002	8,352,404	2,038,196	10,390,600
Other Africa	-	2,416,098	2,416,098	-	802,994	802,994
Barbados	-	<u>3,323,470</u>	<u>3,323,470</u>	-	<u>1,711,416</u>	<u>1,711,416</u>
	<u>\$8,690,779</u>	<u>\$8,375,791</u>	<u>\$17,066,570</u>	<u>\$8,352,404</u>	<u>\$4,552,606</u>	<u>\$12,905,010</u>
Cash from operating activities	58,692	\$ (143,529)	\$ (84,837)	\$ 248,504	\$ (607,705)	\$ (359,201)
Cash from investing activities	(1,086,284)	(1,612,064)	(2,698,348)	(255,004)	(1,183,090)	(1,438,094)
Cash from financing activities	958,908	298,443	1,257,351	(112,938)	2,615,334	2,502,396

---

**Directors**

Stuart R. Comline  
G. Michael van Aswegen  
Derek L. Kyle  
Thomas A. Di Giacomo  
E. Adrian Meyer  
Warren E. Newfield  
Martin L. Rosser

**Registered Head Office**

41 Roebuck Street  
Bridgetown  
Barbados  
Tel: 212-386-5496  
Fax: 212-386-5425  
E-mail: [info@afriore.com](mailto:info@afriore.com)  
Web: [www.afriore.com](http://www.afriore.com)  
TSX symbol: AFO  
Listed in Standard & Poor's Corporation Records

**Management**

Stuart R. Comline, Chairman  
G. Michael van Aswegen, President & CEO  
Bruce P. Tanner, COO Coal Operations  
Mark R. Snelling, Vice President, Operations  
Vere Brathwaite, Secretary  
Susan M.J. Myburgh, Interim CFO

**South African Office**

Ground Floor, Tuscany Office Park V  
6 Coombe Place  
PO Box 766, Rivonia 2128  
Sandton, South Africa  
Tel: 2711-803-5909  
Fax: 2711-803-5692  
E-mail: [adminjhb@afriore.co.za](mailto:adminjhb@afriore.co.za)

CUSIP: 007972  
SEC 12g 3-2 (b) exemption 82-4514